

## HW - Chapter 9 - Dividend Policy - Q4

The P/E ratio i.e. price earnings ratio can be computed with the help of the following formula:

$$P/E \text{ ratio} = \text{MPS} \div \text{EPS}$$

Since the D/P ratio is 40%,  $D = 40\%$  of  $E$  i.e.  $0.4E$

Hence,

Market price per share ( $P$ ) using Graham & Dodd's model:

$$P = m (D + E/3)$$

$$P_0 = 9 (0.4E + E/3)$$

$$P_0 = 6.6E$$

Hence P/E ratio is 6.6 times