HW - Chapter 9 - Dividend Policy - Q7

Market price per share by

(i)   Walter's model

Po = {D + R / Ke (E-D) } / Ke

= { 6 + 0.25 / 0.20 (10 - 6 } / 0.20

= Rs. 55

(ii)   Gordon's model

P0 = D1 / (Ke - g)

Where g = br = 0.4 x 025 = 0.10

P0 = 6 / (0.20 - 0.10) = Rs. 60