TWO MORE STOCK CALCS

These are not used much in the text, but may show up in a test question...

SINGLE PERIOD HOLDING MODEL

$$V_0 = \frac{V_1 + D_1}{1 + k_{cs}}$$

Used when a stock is only owned for one year.

Essentially, what this formula is doing is finding today's price based on the fact that a year from now, the owner will get cash from the dividend paid AND from selling it.

This concept isn't in the end-of-book test or the Pre-assessment, and the formula is not given on the PA or OA. That tells me it probably won't be tested.

BUILD-UP METHOD

$$\begin{array}{l} \text{Bond Yield} \\ + \quad \text{Equity Risk Premium} \\ + \quad \text{Micro-cap Risk Premium} \\ + \quad \text{Start-up Risk Premium} \\ \hline \text{Required Rate of Return, or } k_{cs} \end{array}$$

Just add them up, that's all you need to know.

Actually, one more thing you need to know:

They will try to trick you by giving TWO values with ONE number. Don't fall for it. Watch out for something like, "Both the Micro-cap and the Start-up are 6%." Your brain will see one number, but it's really two.