***Calculation Examples: DDM***

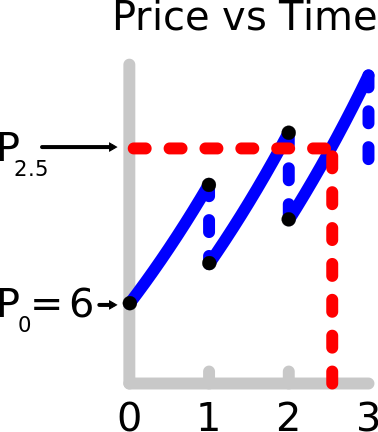
**Question:** The Telstra (TLS) stock price is $**6**. Its next annual dividend of $**0.30** will be paid in exactly one year from now. Dividends are expected to grow by **2**% pa forever.

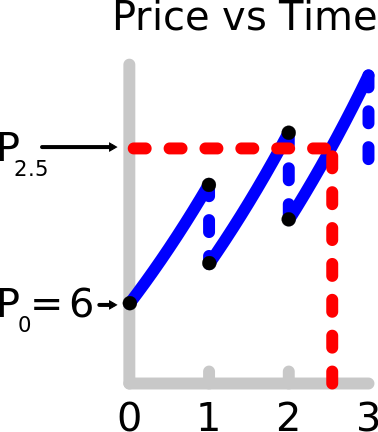
What is the stock's required return on equity, given as an effective annual rate?

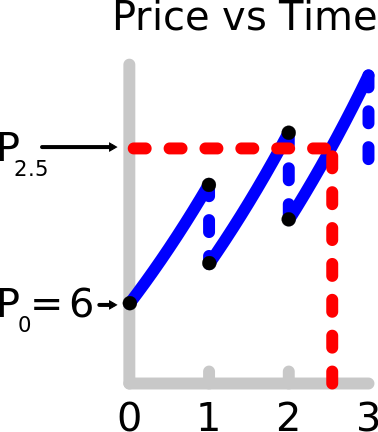
**Answer:**

**Question:** Estimate the future stock price in 2 years and 6 months (2.5 years).

**Answer:** We can use a number of methods to find the price. All are best visualised by following the path of the ‘saw tooth’ diagram of price versus time.

*Method 1:* Grow the current price by g from trough to trough for two periods, then by r for half a period from trough to peak.

*Method 2:* Grow the current price by r from trough to peak, then subtract the dividend, and repeat for another one and a half periods. Note that .

*Method 3:* The price in 2.5 periods will be the price in 2 periods, grown forward from trough to peak by r for half a period.

***Questions: Dividend Discount Model***

<http://www.fightfinance.com/?q=479,3,4,451,7,28,201,216,497,217,264,289,352,31,161,36,39,40,41,148,158,441,51,50,270,488,465,>