TD N=3

Problem 1 :

Suppose a company is expected to generate the following future cash flows:

- Year 1: $5 per share
- Year 2: $6 per share
- Year 3: $7 per share
- Required rate of return (rrr) = 10%

Using the fundamental model, what is the intrinsic value of the stock ?

Problem 2:

- Last year's dividend (D_0) = $2.00
- Expected dividend growth rate (ggg) = 5%
- Required rate of return (rrr) = 10%

1. Using GGM, what is the intrinsic value of the stock ?
2. What Happens If Growth Increases to 6%?

Problem 3:

- The company is expected to pay dividends as follows:
  - **Year 1:** $2.00
  - **Year 2:** $2.50
  - **Year 3:** $3.00
- The discount rates vary over time:
  - **Year 1:** 10%
  - **Year 2:** 9%
  - **Year 3:** 8%
- After Year 3, the company is expected to grow at a constant **5% per year**, with a terminal value calculated using the **Gordon Growth Model**.