The Dello Company has one million shares of stock outstanding currently selling for a price of $50 per share. Expected earnings next year are $5.00 per share. The company has established a policy of paying out 60% of earnings as common stock dividends. The long-term growth rate in earnings will be 6.00%.

What is the expected price of Dello at the beginning of next year (that is, what is $P_1$)? What is $k$?

For the Lpeg Company we have: $P_1 = 64.80$, $k = 10.0\%$, and $g = 8.0\%$. What is the current ($P_0$) price of the stock?

Indicate whether the following statement is true or false and briefly discuss (or show a counter example):

Two simple Gordon-perpetuity-dividend model stocks are in the same risk class and have the same earnings-per-share. The firm with the higher growth rate in earnings will have the higher price / earnings ratio.

(Use back if additional space is needed)