Session 17A: Post Class tests

1. The conventional wisdom is that if a company increases its growth rate, the PE ratio should go up. When is this not true?
    a. When the company has a growth rate< riskfree rate
    b. When the company is risky
    c. Whey the company is safe
    d. When the company earns a ROE> Cost of equity
    e. When the company earns a ROE < Cost of equity
2. You have evaluating Zena Inc., a firm that is trading at a PE ratio of 15, with an expected growth rate of 20%, on a PEG ratio basis. The PEG ratio for the S&P 500 is 1.10. Based on the PEG ratios, which of the following statements would you subscribe to?
    a. Zena is cheap, relative to the market
    b. Zena is expensive, relative to the market
    c. Zena is cheap, relative to the market, but only if it is safer than the market
    d. Zena is cheap, relative to the market, but only if it is riskier than the market
    e. Zena is expensive, relative to the market, but only if it is safer than the market
    f. Zena is expensive, relative to the market, but only if it is riskier than the market
3. You are reading an analyst reports that claims that banks collectively are cheap, because they are trading at 0.80 times book value of equity. You believe that the truth is that banks are perceived as riskier than they used to be. If the current return on equity for banks is 10% and the expected growth rate in perpetuity is 2%, what is the cost of equity that investors are attaching to banks? (Assume that banks collectively are in stable growth)
    a. 8%
    b. 12%
    c. 12.5%
    d. 15%
    e. None of the above