Chapter 3 Solutions to Problems

1. a. Total flotation costs = 500,000($35 - $33.25) + $225,000
   = $875,000 + $225,000
   = $1,100,000

   b. Flotation costs as a % of gross proceeds = $1,100,000/(500,000 x $35)
   = $1,100,000/$17,500,000
   = 0.063, or 6.3%

   c. Flotation costs per share = $1,100,000/500,000
   = $2.20

2. a. Total invested = 10,000($1.75) + $250 = $17,750

   b. Net from sale = 10,000($1.50) - $250 = $14,750

   c. Rate of return = ($14,750 - $17,750)/$17,750 = -0.169, or -16.9%

3. Total invested = 500($10) + $100 = $5,100

   Net from sale = 500($14.25) - $150 = $6,975

   Rate of return = ($6,975 - $5,100)/$5,100 = 0.368, or 36.8%

4. a. From left to right:
   
   $17.96 and $11.30 are the high and low price per share for the last 52 weeks. 
   Winn Dixie is the company name, WIN is its trading symbol. 
   $0.20 is the indicated annual dividend per share, based on the most recently paid dividend 
   annualized.
   1.6% is the stock’s dividend yield (annual dividend/closing price).
   12 is the PE ratio (price per share/earnings per share).
   5532 is the number of 100-share units (round lots) traded during the day. 
   $12.85 is the closing price per share.
   $0.15 is the net change in closing price from the previous trading day’s closing price.

   b. Price on previous trading day = $12.85 - $0.15 = $12.70

   c. Dividend yield = $0.20/$12.85 = 0.0156 = 1.6% rounded.

5. a. From left to right:
   
   $58.03 and $43.72 are the high and low price per share for the last 52 weeks. 
   WMT is the trading symbol for the Wal-Mart Corporation. 
   $0.36 is the indicated annual dividend per share, based on the most recently paid dividend 
   annualized.
   0.6% is the stock’s dividend yield (annual dividend/closing price).
30 is the PE ratio (price per share/earnings per share).
63282 is the number of 100-share units (round lots) traded during the day.
$55.80 is the closing price per share.
-$0.85 is the net change in closing price from the previous trading day’s closing price.

b. Dividend yield = $0.36/$55.80 = 0.00645 = .6% rounded

c. Earnings per share = $55.80/30 = $1.86

d. Dividend payout ratio = $0.36/$1.86 = 0.19 = 19% or

\[
\text{Dividend payout ratio} = .6\% \times 30 = 18\%
\]

\[
\text{Retention ratio} = 100\% - 19\% = 81\% \text{ or } 100\% - 18\% = 82\%
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6. a. Quotes appearing in a Thursday newspaper would be for trading on Wednesday.

b. Coke has the larger dividend yield.

\[
\text{Coke dividend yield} = \frac{0.88}{47} = 0.187 = 1.9\%
\]
\[
\text{Pepsi dividend yield} = \frac{0.64}{44.96} = 0.0142 = 1.4\%
\]

c. Coke EPS = $47/28 = $1.68; Pepsi EPS = $44.96/23 = $1.95

d. Coke dividend payout ratio = $0.88/$1.68 = 0.524 = 52% or

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\text{Coke dividend payout ratio} = 1.9\% \times 28 = 53\%
\]
\[
\text{Coke retention ratio} = 100\% - 52\% = 48\% \text{ or } 100\% - 53\% = 47\%
\]

\[
\text{Pepsi dividend payout ratio} = \frac{0.64}{1.95} = 0.328 = 33\% \text{ or }
\]
\[
\text{Pepsi dividend payout ratio} = 1.4\% \times 23 = 32\%
\]
\[
\text{Pepsi retention ratio} = 100\% - 33\% = 67\% \text{ or } 100\% - 32\% = 68\%
\]

7. \textit{Ford:}

a. Semiannual interest = (6.625\% \times $1,000)/2 = $66.25/2 = $33.125

b. Bond price = 89.043\% \times $1,000 = $890.43

c. Current yield = $66.25/$890.43 = 0.074, or 7.4\%

\textit{General Mills:}

a. Semiannual interest = (6.0\% \times $1,000)/2 = $60/2 = $30

b. Bond price = 114.809\% \times $1,000 = $1,148.09

c. Current yield = $60/$1,148.09 = 0.052, or 5.2\%

\textit{General Motors:}

a. Semiannual interest = (7.2\% \times $1,000)/2 = $72/2 = $36

b. Bond price = 103.304\% \times $1,000 = $1,033.04

c. Current yield = $72/$1,033.04 = 0.070, or 7.0\%
**Sprint:**
a. Semiannual interest = (6.875% x $1,000)/2 = $68.75/2 = $34.375
b. Bond price = 104.73% x $1,000 = $1,047.30
c. Current yield = $68.75/$1,047.30 = 0.066, or 6.6%

**Target:**
a. Semiannual interest = (4.0% x $1,000)/2 = $40/2 = $20
b. Bond price = 99.803% x $1,000 = $998.03
c. Current yield = $40/$998.03 = 0.040, or 4.0%