The answer to the question is highlighted in red. Explanations are highlighted in green.

18. Temporary Trucking Company’s (TTC) common stock currently sells for $15.00 per share. It is expected that the company will pay a dividend equal to $0.90 in one year, and at that time the price of the stock is expected to be $16.20. According to this information, TTC’s stockholders expect to earn a dividend yield equal to _____ and a capital gains rate equal to ______.
   a. 6.0%; 8.0%
   b. 8.0%; 6.0%
   c. 5.6%; 14.0%
   d. 14.0%; 0.0%
   e. None of the above is a correct answer.

The dividend yield is computed as follows:

\[
\text{Dividend Yield} = \frac{\hat{D}_1}{P_0} = \frac{0.90}{15.00} = 0.06 = 6.0\%
\]

The capital gain is computed as follows:

\[
\text{Capital Gain} = \frac{P_1 - P_0}{P_0} = \frac{16.20 - 15.00}{15.00} = \frac{1.20}{15.00} = 0.08 = 8.0\%
\]

RETURN TO THE SAMPLE QUESTIONS