**Session 8: Post class test solutions**

1. **c. The cash flow after debt payments and reinvestment.** In general, this can be computed as Net Income + Depreciation – Capital Expenditures – Change in Working Capital – (Debt Repaid – Debt Raised)
2. **e. Dividends have to be approximately equal to potential dividends (FCFE).** If dividends are much greater (lower) than potential dividends, you will over (under) value the company. The fact that a company does not pay dividends right now should not stop you from forecasting dividends that are positive in the future and using the dividend discount model.
3. **d. $25.50/share.** Value per share = $2.00 (1.02)/(.10-.02) = $25.50. You have to forecast next year's dividends.
4. **d. 7.0%.** Price per share = 40.80 = 2.00 (1.02)/ (r -.02). Solve for r.