**CORPORATE FINANCE**

**Learning Outcome 3: ACTIVITY 4**

## **Key features of dividend valuation model and Gordon’s Growth Model**

Dividends are payments made by businesses (specifically, limited companies) to their equity investors.

The dividend valuation model (DVM) is an approach to the calculation of the equity risk premium that seeks to estimate the implied equity rate of return that is embedded in the current market price of a security, based on the forecast dividends to be paid in shares.

#### Individually, and then in pairs

1. Explain the terms ‘current market price’ and ‘forecast dividends’.
2. Identify and outline the formula for the calculation of the value of equity using the DVM.
3. Explain the key assumption that underpins Gordon’s Growth Model.
4. Identify and outline the formula for the calculation of the value of equity using the Gordon’s Growth Model.