

Corporate Finance, Module 15, "Common Stock Dividends"

Practice Problems

(The attached PDF file has better formatting.)

Exercise 15.1: Dividend Dates

A firm has four relevant dates for its third quarter 20X7 stockholder dividend. The names of the dates are shown on the left and the calendar dates (not in proper order) on the right. Match the names to the proper calendar dates.

- | | |
|----------------------|-----------------------|
| 1. Record date | A. August 12, 20X7 |
| 2. Payment date | B. August 23, 20X7 |
| 3. Announcement date | C. August 25, 20X7 |
| 4. Ex-dividend date | D. September 18, 20X7 |

Solution 15.1:

- The first date (8/12/20X7) is the *announcement date*, when the stockholder dividend is publicly announced.
- The next date (8/23/20X7) is the first date the stock is traded without the cash dividend (the *ex-dividend date*); it occurs 2 business days before the *record date* (8/25/20X7), the date on which the list of shareholders eligible to receive the cash dividend is made.
- The last date (9/18/20X7) is the payment date, when the dividend is paid.

Exercise 15.2: Stock Dividend

A firm has 40 million shares trading at \$96 per share when it declares a 20% stock dividend (not a cash dividend). If nothing else changes, what is the price per share after the new stock is distributed?

Solution 15.2: Before the stock dividend, there are 40 million shares with a total value of $40 \text{ million} \times \$96 = \$3,840 \text{ million}$. After the stock dividend, the value of the firm has not changed, since no money has been received from or given to others, but there are now $40 \text{ million} \times 1.20 = 48 \text{ million}$ shares. The new share price is

$$\$3,840 \text{ million} / 48 \text{ million} = \$80.$$