**FIN 332**

**Activity 7.2**

Please use MS Excel to answer the following questions. Please upload the excel file onto Canvas.

 Recall ABC Aviation Inc. owned by Mr. Lucas F. that was paying out a constant dividend of $ 2.78 per year forever at a discount rate of 4%.

 The company CFO Mr. Alex A. proposes to grow dividends at a rate of 0.8%

 We still need to find the valuation of the company assuming a life of 100-years, 200-years and 300-years as follows:

Step 1: Please enter time periods in column A in appropriate cells. These will be from t=1 through 300.

Step 2: Fill out the dividend growth of g = 0.8% in cell B1

Step 3: Fill out the constant dividend value of $ 2.78 in cell B4.

Step 4: Make sure that the next period dividend is (1+g) times the previous dividend and populate this all the way until cell 300th dividend is populated

Step 3: Fill out the discount rate of 4% in cells C2:E2

Step 4: Find the present value of each dividend using the discount rate and for corresponding time period Formula: div/(1+r)^t for 100-years (column C), 200-years (column D) and 300-years (column E)

Step 5: Find the sum of each sequence of cash flows in cells C3:E3

Step 6: Find the present value if the cash flows were infinite (i.e. Gordon’s formula with dividend growth $P\_{0}=\frac{D\_{1}}{(r-g)}$ which is used when dividends grow at a constant rate)

Step 7: Conclusion – what happens as the life of the company increases? Fill out the cell H-1