

23. Correct. The answer is false. Although -1.516 is mathematically correct it makes less economic sense than the positive root. To see the roots, we solve the equation $P = D1/(1+k) + D2/(1+k)^2$ for k . Substituting in for dividends and price and multiplying by $(1+k)^2$ we get $(1+k)^2 * 20 = (1+k)^2 * 11/(1+k) + (1+k)^2 * 11/(1+k)^2$. Simplifying $-20k^2 - 29k + 2 = 0$. Applying the quadratic formula $k = +29 + ((-29)^2 + 4 * (-20)(2))^{0.5} / (2 * (-20)) = -1.516$ or $k = +29 - ((-29)^2 + 4 * (-20)(2))^{0.5} / (2 * (-20)) = 0.066$.