

EQUITY:  $D_5 = 3.28$   $D_0 = 5.05$   $g \rightarrow \infty$

$$\frac{D_1}{P_0} = 10\% \quad 3.28(1+g)^5 = 5.05$$

$$g = 9\%$$

$$\therefore k_e = \frac{D_1}{P_0} + g = .10 + .09 = 19\% \quad \text{RETAINED EARNINGS}$$

NEW COMMON STOCK  $FC = 15.68$

$$k_{n1} = \frac{D_1}{I_0} + g \quad D_1 = D_0(1+g)$$

$$D_1 = 5.05(1.09) = 5.505$$

$$\frac{D_1}{P_0} = .10 = \frac{5.505}{P_0} \quad P_0 = 55.05$$

$$k_{n1} = \frac{5.505}{55.05 - 15.68} + 0.09 = .14 + .09 = 23\%$$

$$k_{n2} = 23 + 4 = 27\% \quad (\text{GIVEN})$$