

CONCEPT: RATIOS – DIVIDEND YIELD RATIO

- The **Dividend Yield Ratio** measures the percentage of the market stock price distributed to stockholders as dividends.

□ The Dividend Yield Ratio is a common _____ ratio

$$\text{Dividend Yield Ratio} = \frac{\text{Dividends per Share of Common Stock}}{\text{Market Price per Share of Common Stock}} * 100$$

Note: This ratio is generally shown as a _____, make sure to multiply by 100!

Analysis: This ratio shows the amount of cash dividends received by investors per dollar of market price of the stock.

Comparison: Investors are interested in dividend payments because they are actual cash returns on their investment. However, investors in stock also get a return through capital _____ (the increase in the price of the stock). Companies with small dividends tend to reinvest earnings into their business, while high dividend payments are seen as stable realized income to investors.

PRACTICE: During the current year, PayCo declared and paid a cash dividend of \$600,000. The number of shares of common stock outstanding is 1,000,000. If the current market price of the stock is \$15, what is the dividend yield ratio?

- a) 2%
- b) 4%
- c) 8%
- d) 12%

PRACTICE: ABC Company's common stock currently has a market price of \$20, while total stockholders' equity has a book value of \$600,000 (60,000 shares outstanding). During the current year, ABC Company maintained a dividend yield ratio of 8%. What was the total amount of dividends paid to common stockholders?

- a) \$24,000
- b) \$48,000
- c) \$72,000
- d) \$96,000