

PRICE - EARNING RATIO
& DIVIDEND DISCOUNT MODEL

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Price - Earnings Ratio and the Dividend Discount Model are two of the important stock valuation models in investment selection decisions and identifying mispriced securities. All methods of stock valuation should be recognized as alternatives to each other rather than recognizing one method as completely outweighing the other. Since the object of the exercise is to gain insight into the operations of the market place and interlinkages between macro economic factors, micro economic factors, every model has something to offer.

In its simplest form, price-earning ratio of a company can be interpreted as "a measure of esteem in which a company is held by investors"¹ and it is represented as the ratio of the stock price to the latest available earnings per share figure.

