Q. At page 40, lines 14-15, Dr. Kalymon indicates that the expected growth rate is in the range on 8.0-9.0%. In light of the industrials' dividend payout ratio of 32% on a median basis, what is the indicated return on equity necessary to produce a sustainable growth rate of 9%?

A. For any unregulated industrial company, the growth rate in dividends can result from several sources beyond the reinvestment of earnings. For example, growth can occur from the additional issuance of common equity at premiums to the book value. Similarly, since returns are unregulated, the future return on a fixed level of assets may grow and create growth in earnings and dividends unrelated to current return on equity. Thus, the expected growth rate of 8.00% to 9.00% can be achieved with a wide range of returns on equity which is not determined by the retention rate. Thus, no indicated return on equity can be calculated as requested.