Q. Reference: Dr. Booth's Evidence, Page 52, Lines 7-9

What adjustments has Dr. Booth made to the mechanical application of the DCF model to correct for the abnormally low LTC bond yield?

A. The DCF model *directly* estimates the investor's required rate of return as the discount rate that sets the stock price equal to the future stream of dividends. As such, the level of interest rates is not a factor in the direct estimation of the DCF model. Of course, changes in interest rates affect stock prices and *indirectly* enter into the DCF estimate of the required rate of return.