

## MCQ

1. B
2. D
3. D
4. C
5. C
6. B
7. B
8. C
9. D
10. E

## PROBLEM 1:

a)  $R_u = WACC$

$$V = 150 / 0.08 = 1,875.00 \text{ M}$$

$$V = B + S$$

$$B = S$$

$$B = 937.50 \text{ M}$$

b)  $V_l = 150 * (1 - 0.34) / 0.08 + 0.34 * 937.50$   
 $= 1556.25$

## Problem 2:

- a. Payoff during Recession 17 million
- b. Promised return =  $FV \text{ of debt} / \text{Market value} - 1 = 24 / 18.8 - 1 = 27.66\%$
- c. Expected value of debt =  $0.6 * 24 + 0.4 * 17 = 21.2$   
Expected Return =  $21.2 / 18.8 - 1 = 12.77\%$

(Note: if you thought that 24 million payment was not the debt payment, you were not penalised and got full credit (provided rest of your analysis was correct))

## Problem 3:

Please see your notes or textbook.

## Problem 4:

Please your notes or textbook.

Bonus:

She was facing RISK of drowning. Average numbers do not tell the whole story. You have to know the standard deviation of the data. Same thing goes for financial assets. Average return does not tell the whole story, one needs to know the risk associated with the average return.