Exam 4 Practice questions

1. A corporation has 10,000 bonds outstanding with a 6% annual coupon rate, 8 years to maturity, a $1,000 face value, and a $1,100 market price and a YTM of 4.48%. The company's 500,000 shares of common stock sell for $25 per share and have a beta of 1.5. The risk free rate is 4%, and the market return is 12%.Assuming a 40% tax rate, what is the cost of equity? Cost of debt? After tax cost of debt? Debt/Equity Ratio? Company's WACC?

2. Dunder Mifflin Paper Co is a new firm in a rapidly growing industry. The company is planning on increasing its annual dividend by 10 percent a year for the next 4 years and then decreasing the growth rate to a constant 4.0 percent per year forever. The company just paid its annual dividend in the amount of $0.30 per share. What is the current value of one share of this stock if the required rate of return is 12.5 percent?

3. Consider the following information on returns and probabilities:

State	Probability	DIS	TSLA
Boom	.50	24%	38%
Normal	.20	7%	20%
Recession	??	-5%	-15%

   What are the expected return and standard deviation for a portfolio with an investment of $8,000 in asset DIS and $12,000 in asset TSLA?

4. Oscar's Restaurant Inc just paid a dividend of $1.85 per share. The dividends are expected to grow at 7% growth rate forever. What is the dividend yield if the required return is 12%?

5. Stanley and Phyllis' Sandwich shop had returns of 16%, 7%, 8.5%, -5%, and 2.2% over the last 5 years. What is the arithmetic and geometric return? What is the variance? Standard deviation?

6. Your portfolio consists of $2,000 invested in Twitter Inc $5,000 invested in Facebook and $1,000 invested in Johnson and Johnson. If the stocks have beta's of 1.7, 0.85, and 1.2 respectively, what is the portfolio beta. Is the portfolio riskier than the market?

7. You bought a stock last year for $22.50. The stock is currently worth $37.10 and has paid $0.90 in dividends. What is the dividend yield? Capital Gains Yield? Total percentage return?

8. What is the expected return of Schrute Farms if the market return is 8%, the risk free rate is 3% and the stock has a beta of 1.1?

9. The probability of a recession is 20% and of a boom is 25% the rest of the time is expected to be a normal state. What is the expected return of a stock that earns 20% in a boom period, 8% in a normal period, and -2% in a recession? What is the variance? Standard Deviation?