1.      IBM financed 10m via debt coupon 5%, 10 year, price is $950 and flotation is 7% of the price, tax 40%.

IBM financed 20m via equity. D1=$5. Po=50, g is 5%. Flotation cost =0. So WACC?

Wd=1/3. We=2/3.

Kd = rate(10, 5%\*1000, -(950-950\*7%), 1000)\*(1-40%), AFTER TAX COST OF DEBT

Ke = 5/(50 – 0) + 5%, Ke = D1/(Po-flotation) + g =15%

WACC = Wd\*Kd +We\*Ke = 1/3 \* 3.98% + 2/3\*15% =11.33%

2.      Firm AAA sold a noncallable bond now has 20 years to maturity.  9.25% annual coupon rate, paid semiannually, sells at a price = $1,075, par = $1,000.  Tax rate = 40%, calculate after tax cost of debt (5.08%)

Kd = rate(20\*2, 92.5/2, -1075, 1000)\*2\*(1-40%)

3.        Firm AAA’s equity condition is as follows. D1 = $1.25; P0 = $27.50; g = 5.00%; and Flotation = 6.00% of price.  Calculate cost of equity (9.84%)

Ke = D1/(Po-flotation) + g = 1.25 / (27.5-6%\*27.5) + 6% =9.84%

4.      Firm AAA raised 10m from the capital market. In it, 3m is from the debt market and the rest from the equity market. Calculate WACC.

Wacc = 1/3 \* 5.08% + 2/3 \* 9.84% =8.25%