Module 12 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Practice Quiz

1. Determine the present value of an 8 year annuity that pays $11,000 at the end of each year discounted at a rate of 6%.

   a. $88,000
   b. $66,000
   c. $68,308
   d. $69,015

The following data pertains to **Radek Corp.**, a manufacturer of office supplies (dollar amounts in thousands). Use this information to complete Questions 2 - 6.

Total assets	$8,731
Interest-bearing debt	$4,239
Average borrowing rate for debt	10.0%
Common equity:	
Book value	$3,130
Market value	$16,284
Marginal income tax rate	35%
Market equity beta	1.33

2. Using the information in the table and assuming that the risk-free rate is 5.3% and the market risk premium is 7.3% calculate **Radek**'s cost of equity capital, using the capital asset pricing model.

   a. 15.01%
   b. 14.35%
   c. 9.71%
   d. 7.05%

3. Using the information in the table calculate **Radek**'s cost of debt capital.

   a. 6.50%
   b. 13.30%
   c. 10.00%
   d. 3.50%

4. Determine the weight on debt capital that should be used to calculate Radek's weighted-average cost of capital.

   a. 26.03%
   b. 20.65%
   c. 57.52%
   d. 52.54%

5. Determine the weight on equity capital that should be used to calculate **Radek**'s weighted-average cost of capital.

   a. 73.97%
   b. 79.35%
   c. 42.48%
   d. 47.46%

6. Using the above information, calculate **Radek**'s weighted-average cost of capital.

   a. 11.50%
   b. 11.89%
   c. 12.48%
   d. 13.25%

7. George forecasts a $1.00 dividend for 2012, $1.10 dividend for 2013 and a $1.20 dividend for 2014 for Mikayla Corporation. For all years after 2014, George forecasts that Mikayla Corporation will pay a $1.30 dividend. Using the dividend discount valuation model, determine the intrinsic value of Mikayla Corporation, assuming the company's cost of equity capital is 8%.

   a. $16.25
   b. $15.72
   c. $18.33
   d. $14.57

8. Wesley Corporation currently pays a $1.55 dividend and its current stock price is $53.50. Assuming the company's cost of equity capital is 6% use the dividend discount valuation model to estimate the company's growth rate.

   a. 1.7%
   b. 2.4%
   c. 3.1%
   d. 6.0%

9. Assume that a company has a beta of .85 and the risk-free rate is 4%. If the market risk premium is 8% calculate cost of equity capital, using the capital asset pricing model.

   a. 8.00%
   b. 6.80%
   c. 10.80%
   d. 12.88%