

1. (TCO C) Brammer Corp.'s projected capital budget is \$1,000,000, its target capital structure is 60 percent debt and 40 percent equity, and its forecasted net income is \$550,000. If the company follows a residual dividend policy, what total dividends, if any, will it pay out?

Dividends paid = NI - [% Equity(Capital budget)] \$150,000

2. (TCO F) Orient Airlines' common stock currently sells for \$33, and its eight percent convertible debentures (issued at par, or \$1,000) sell for \$850. Each debenture can be converted into 25 shares of common stock at any time before 2019. What is the conversion value of the bond?

Conversion value = Conversion ratio x Stock price = \$825

3. (TCO B) If debt financing is used, which of the following is CORRECT?

The percentage change in net income will be greater than the percentage change in net operating income.

4. (TCO B) SA - Your firm has debt worth \$200,000, with a yield of 10 percent, and equity worth \$400,000. It is growing at a seven percent rate, and faces a 40 percent tax rate. A similar firm with no debt has a cost equity of 15 percent. Under the MM extension with growth, what is its cost of equity?

$17.5\% = 15\% + (15\% - 10\%)(200,000/400,000)$

5. (TCO A) Deeble Construction Co.'s stock is trading at \$30 a share. Call options on the company's stock are also available, some with a strike price of \$25 and some with a strike price of \$35. Both options expire in three months. Which of the following best describes the value of these options?

If Deeble's stock price rose by \$5, the exercise value of the options with the \$25 strike price would also increase by \$5.

6. (TCO F) A Treasury Bond futures contract has a settlement priced of 89'08. What is the implied annual yield? (Hint: You can use a financial calculator.)

Using a financial calculator, we can solve for rd as follows: rd is $3.504\% \times 2 \sim 7.01\%$.

In week 4, you will take your 1st, graded quiz. I wish you good luck!

What? You wanted something else? OK...if it were me studying for the quiz, I would probably review the following material:

- **Chapter 08: Section 8.1; Section 8.5**
- **Chapter 14: Section 14.7**
- **Chapter 15: Section 15.2; Section 15.5**
- **Chapter 19: Section 19.3**
- **Chapter 23: Section 23.6**
- **Chapter 26: Section 26.4**