Problem 1  

a. Levered Beta for Rojas  
Unlevered beta = 0.5* 1.15 + 0.5*0.6 = 0.875  
levered beta = 0.875 (1 + (1-.4) (1/2)) = 1.18125  
b. Country Risk Premium = Country default spread * (Eq Std Dev/ Bond std dev) = (8-5) *(32/20) = 4.80%  
c. Lambda for Rojas = 1/.8 = 1.25 (Rojas gets 100% of its revenues in Mexico; Average firm gets 80%)  
Cost of equity in $ = 5% + 1.18 (4%) + 1.25 (4.80%) = 15.73% ! You cannot use 8% since it includes the default spread for Mexico...  
d. Peso cost of equity = (1.1634) * (1.07/1.02) -1 = 21.40% ! You would get full credit if you also worked through from the peso riskfree rate, but you don't have a peso riskfree rate. The peso bond rate of 12% includes default risk.  

Problem 2  

a. Debt value of operating leases = 100 (PV of annuity for 3 years) + 80 (PV of annuity for 3 years) (PV of FV for 3 years)  
= 100 (PVA,3 yrs, 7%) + 80 (PVA,3 yrs, 7%)(PVF,3 years, 7%) = $433.81 ! If you assume beginning of the year, this goes up to $ 464 million.  
b. Firms with long amortizable lives and growing R&D will have the biggest operating earnings effect since the R&D will be large and the amortization will be low.  
c. You will over value the firm. The cash flow effect will dominate the cost of debt effect.  
d. You should include all acquisitions.