Session 11: Post Class tests

1. Alfred Inc. is a publicly traded sporting goods company. The company has $ 250 million in book value of debt, reported interest expenses of $ 12.5 million in the most recent year and has an average maturity of 5 years for the debt. The pre-tax cost of debt for the firm is currently 4%. What is your best estimate of the market value of debt outstanding at the firm? (You can assume annual interest payments and a marginal tax rate of 40%)
   a. $261.12 million
   b. $250.00 million
   c. $280.29 million
   d. $243.01 million
   e. $156.68 million
2. Jack's Stores is a retail firm with no conventional debt. It does have operating lease commitments of $ 12 million each year for the next 8 years. Jack's Stores pre-tax cost of debt is 5%, its cost of capital is 9% and the marginal tax rate is 40%. What is the debt value of operating leases? (The risk free rate is 3%)
   a. $96.00 million
   b. $84.24 million
   c. $77.56 million
   d. $66.42 million
   e. None of the above
3. Faraday Enterprises is a publicly traded company. It currently has 10 million shares trading at $12/share and $150 million in book value of equity. The firm also has book value of debt of $ 75 million and market value of debt of $ 80 million. The cost of equity for the company is 9%, the pre-tax cost of debt is 4% and the marginal tax rate is 40%. What is the cost of capital?
   a. 7.4%
   b. 7.0%
   c. 7.7%
   d. 6.36%
   e. None of the above
4. Lester Inc. has 5 million shares outstanding, trading at $20/share. The company has one convertible bond, with a face value of $ 100 million, a ten-year maturity and a coupon rate of 2%; the bond has a market value of $120 million. If the current cost of equity for the firm is 10% and the pre-tax cost of debt is 5%, what is the cost of capital for the firm? (The marginal tax rate is 40%)
   a. 5.20%
   b. 6.18%
   c. 7.55%
   d. 8.25%
   e. None of the above
5. JG Enterprises has 50 million shares, trading at $4 a share; the cost of equity is 12%. It has debt with a market value of $ 100 million and a pre-tax cost of debt of 6%. Finally the company has $100 million in market value of preferred stock; the preferred shares are trading at $80 a share, with an annual preferred

dividend of $6/share. If the marginal tax rate is 40%, estimate the cost of capital for the firm.

a. 8.78%
b. 8.03%
c. 9.38%
d. 9.90%
e. None of the above