1. Marble Corporation's ROE is 17%. Their dividend payout ratio is 20%. The last dividend, just paid, was $2.58. If dividends are expected to grow by the company's sustainable growth rate indefinitely, what is the current value of Marble common stock if its required return is 18%?

- A. $47.67
- B. $14.33
- C. $66.61
- D. $18.27

2. The issuance of bonds to raise capital for a corporation:

- A. increases risk to the stockholders.
- B. magnifies the returns to the stockholders.
- C. is a cheaper form of capital than the issuance of common stock.
- D. all of the above.
- E. none of the above.

3. Metals Corp. has $2,575,000 of debt, $550,000 of preferred stock, and $18,125,000 of common equity. Metals Corp.'s after-tax cost of debt is 5.25%, preferred stock has a cost of 6.35%, and newly issued common stock has a cost of 14.05%. What is Metals Corp.'s weighted average cost of capital?

- A. 12.78%
- B. 6.56%
- C. 10.84%
- D. 8.32%

4. The GAP's most recent earnings per share were $1.75. Analysts forecast next year's earnings per share at $1.88. If the appropriate P/E ratio is 15, a share of GAP stock should be valued at:

- B. $8.57.
- C. $27.23.
- D. $28.20.
5. Caldwell, Inc. sold an issue of 30–year, $1,000 par value bonds to the public. The bonds carry a 10.85% coupon rate and pay interest semiannually. It is now 12 years later. The current market rate of interest on the Caldwell bonds is 8.45%. What is the current market price (intrinsic value) of the bonds? Round off to the nearest $1.

☐ A. $976
☐ B. $751
☐ C. $1,220
☐ D. $1,177

6. A bond has a coupon rate of 10% and yield to maturity of 12%. Which of the following must be true?

☐ A. The bond is selling at a discount.
☐ B. The bond is selling at a premium.
☐ C. The bond's current yield is less than the coupon rate.
☐ D. Both A and C.
☐ E. Both B and C.

7. MI has a $1,000 par value, 30–year bond outstanding that was issued 20 years ago at an annual coupon rate of 10%, paid semiannually. Market interest rates on similar bonds are 7%. Calculate the bond's price.

☐ A. $956.42
☐ B. $1,000.00
☐ C. $1,168.31
☐ D. $1,213.19
8. Based on current market values, Shawhan Supply's capital structure is 30% debt, 20% preferred stock, and 50% common stock. When using book values, capital structure is 25% debt, 10% preferred stock, and 65% common stock. The required return on each component is: debt—10%; preferred stock—11%; and common stock—18%. The marginal tax rate is 40%. What rate of return must Shawhan Supply earn on its investments if the value of the firm is to remain unchanged?

☐ A. 10.0%
☐ B. 14.3%
☐ C. 13.0%
☐ D. 18.0%

9. Common stockholders are essentially:

☐ A. creditors of the firm.
☐ B. owners of the firm.
☐ C. managers of the firm.
☐ D. all of the above.

10. The CAPM approach is used to determine the cost of:

☐ A. preferred stock.
☐ B. debt.
☐ C. common equity.
☐ D. long term funds.

11. Butler, Inc.'s return on equity is 17% and management retains 75% of earnings for investment purposes. Based on this information, what will be the firm's growth rate?

☐ A. 4.25%
☐ B. 22.67%
☐ C. 12.75%
☐ D. 44.12%
12. Government bonds have lower yield to maturity than do corporate bonds of the same maturity because the ________ premium is lower for government bonds.

- A. default
- B. maturity
- C. interest rate risk
- D. inflation

13. Which of the following investors incurs the least risk?

- A. Bondholders
- B. Preferred stockholders
- C. Common stockholders
- D. All of the above bear equal risk

14. Sola Cola Corporation is undertaking a capital budgeting analysis. The rate on 10-year U.S. Treasury bonds is 3.60%, and the return on the S & P 500 index is 11.6%. If the cost of Sola Cola's common equity is 19.6%, calculate their beta.

- A. 2.0
- B. 1.38
- C. 5.4
- D. 1.69

15. Sonderson Corporation is undertaking a capital budgeting analysis. The firm's beta is 1.5. The rate on six-month T-bills is 5%, and the return on the S&P 500 index is 12%. What is the appropriate cost of common equity in determining the firm's cost of capital?

- A. 13.1%
- B. 15.5%
- C. 19.9%
- D. 17.7%
16. WSU Inc. is a young company that does not yet pay a dividend. You believe that the company will begin to pay dividends 5 years from now, and that the company will then be worth $50 per share. If your required rate of return on this risky stock is 20%, what is the stock worth today?

- A. $40
- B. $0.00
- C. $20.09
- D. $10

17. Brookline, Inc. just sold an issue of 30-year bonds for $1,107.20. Investors require a rate of return on these bonds of 7.75%. The bonds pay interest semiannually. What is the coupon rate of the bonds?

- A. 11.072%
- B. 7.750%
- C. 8.675%
- D. 9.375%

18. A stock currently sells for $63 per share, and the required return on the stock is 10%. Assuming a growth rate of 5%, calculate the stock's last dividend paid.

- A. $5
- B. $1
- C. $7
- D. $3

19. Little Feet Shoe Co. just paid a dividend of $1.65 on its common stock. This company's dividends are expected to grow at a constant rate of 3% indefinitely. If the required rate of return on this stock is 11%, compute the current value of per share of LFS stock.

- A. $20.63
- B. $15.00
- C. $21.24
- D. $55.00
20. If the market price of a bond increases, then:

- [ ] A. the coupon rate increases.
- [ ] B. the yield to maturity increases.
- [ ] C. the yield to maturity decreases.
- [ ] D. none of the above.

21. A decrease in the _______ will cause an increase in common stock value.

- [ ] A. growth rate
- [ ] B. last paid dividend
- [ ] C. required rate of return
- [ ] D. both B and C

22. The XYZ Company, whose common stock is currently selling for $40 per share, is expected to pay a $2.00 dividend in the coming year. If investors believe that the expected rate of return on XYZ is 14%, what growth rate in dividends must be expected?

- [ ] A. 14%
- [ ] B. 5%
- [ ] C. 9%
- [ ] D. 6%

23. J & B, Inc. has $5 million of debt outstanding with a coupon rate of 12%. Currently, the yield to maturity on these bonds is 14%. If the firm's tax rate is 40%, what is the after – tax cost of debt to J & B?

- [ ] A. 14.0%
- [ ] B. 12.0%
- [ ] C. 5.6%
- [ ] D. 8.4%
24. If a company has a return on equity of 25% and wants a growth rate of 10%, how much of ROE should be retained?

☐ A. 50%
☐ B. 40%
☐ C. 70%
☐ D. 60%

25. Bondholders have a priority claim on assets ahead of:

☐ A. common stockholders.
☐ B. preferred stockholders.
☐ C. both A and B.
☐ D. none of the above.
1. C
2. D
3. A
4. D
5. C
6. A
7. D
8. C
9. B
10. C
11. C
12. A
13. A
14. A
15. B
16. C
17. C
18. D
19. C
20. C
21. C
22. C
23. D
24. B
25. C