Unit 4 - Week 3

Assignment 03

Due on 2022-04-25, 11:59 PM

1. A company invests $10,000 in a new project. The expected return is $12,000 in one year. The company is in a 30% tax bracket. What is the after-tax return on the project?

2. A stock is currently trading at $50 per share. It is expected to pay a dividend of $2 per share one year from now. If the required rate of return is 10%, what is the expected price of the stock one year from now?

3. A bond with a face value of $1,000 has a coupon rate of 5% and pays interest annually. The bond is currently selling for $950. What is the yield to maturity for this bond?

4. A company is considering two investment opportunities. Investment A is expected to yield $100,000 in one year if the company invests $10,000. Investment B is expected to yield $150,000 in one year if the company invests $20,000. Which investment has the higher expected return per dollar invested?

5. A company is considering taking on additional debt. The company currently has $100,000 in equity and is considering borrowing an additional $50,000 at an interest rate of 6%. The company is in a 25% tax bracket. What is the after-tax cost of debt for this company?