

Problem Set for Quiz 3.

Refer to the spreadsheet PS1data to answer the questions. Assume that the statutory tax rate for all 3 companies is 23%.

1. Using the value-weighted CRSP Index as the market, what are the monthly systematic and diversifiable variances of the 3 stocks: ITT Corporation (ITT), Northrup Grummon (NOC), Weyerhaeuser (WY)?
2. Assuming that the expected market return is 8.5% and the yield to maturity of the 30-year Treasury bond is 3.5%, what are these 3 companies' costs of equity capital?
3. ITT Corporation has 87,560,000 shares outstanding and long-term debt of \$1.2 billion in long-term debt (this also includes obligations related to asbestos litigation and pensions). Its credit spread is 300 basis points. What is its weighted average cost of capital?
4. Northrup Grummon Corporation has 173,620,000 shares outstanding and long-term debt of \$16 billion in long-term debt. Its credit spread is 150 basis points. What is its weighted average cost of capital?
5. Weyerhaeuser has 749,200,000 shares outstanding, and \$8 billion in long-term debt. Its credit spread is 280 basis points. What is its weighted average cost of capital?

Remember while we use spreadsheets for ease and exposition, you will have to perform all of these computations with a calculator and a blank sheet of paper on the quiz.