1. Caddy manufacturing has a target debt equity ratio of .45. Its cost of equity is 10.3%, and its pre-tax cost of debt is 6.4%. If the tax rate is 21%, what is the company's WACC ?

2. Hankins Corp has 5.4 million shares of common stock outstanding; 290,000 shares of 5.2% preferred stock outstanding, with a par value of $100; and 125,000, 5.7 semiannual bonds outstanding with a par value 1000 each. The common stock currently sells for $72 per share and has a beta of 1.13, The preferred stock currently sells for $103 per share, and the bonds have a 20 year to maturity and self worth. 103 percent of par. The market risk premium is 6.8%, T-bills are yielding 4.3%, and the firm's tax rate is 23%.
   A. What is the firm's market capital structure?
   B. If the firm is evaluating a new investment project that has the same risk, as the firm's typical project, what rate should the firm used to discount the project's cash flow?

3. An all equity firm is considering the following projects:

| Project | Beta | IRR |
|---|---|---|
| W | 0.80 | 9.3% |
| X | 0.90 | 11.4% |
| Y | 1.10 | 12.1% |
| Z | 1.35 | 15.1% |

The T bill rate is 4%, and the expected return on the market is 12%.

A. Which projects have the higher expected return than the firm's 12% cost of capital?
B. Which projects should be accepted?
C. Which projects will be incorrectly accepted or rejected if the firm's overall cost of capital were used as a hurdle rate?