Cost of Capital

Pepsi Cola bottling company is at its optimal capital structure of 70% common equity and 30% debt. MPC’s WACC is 14%. MPC has a marginal tax rate of 40%. Next year’s dividend is expected to be $2.00 per share and MPC has a constant growth in earnings and dividends of 6%. The cost of common equity used in the WACC is based on retained earnings, while the before tax cost of debt is 12%. What is MPC’s current equilibrium stock price?

a. $12.73 b. $17.23 c. $18.33 d. $20.37 e. Other Answer