Financial Management

Ford Company

Capital Budgeting Problem

The market value of Fords' equity, preferred stock and debt are $7 billion, $3 billion, and $10 billion, respectively. Ford has a beta of 1.8, the market risk premium is 7%, and the risk-free rate of interest is 4%. Ford's preferred stock pays a dividend of $3.5 each year and trades at a price of $27 per share. Ford's debt trades with a yield to maturity of 9.5%. What is Ford's weighted average cost of capital if its tax rate is 30%?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ford Company** | | | | |
|  | | | | |
|  |  | Market Capitalization |  | Weight |
|  |  |  |  |  |
| Equity (E) |  |  |  |  |
| Preferred (P) |  |  |  |  |
| Debt (D) |  |  |  |  |
|  |  |  |  |  |
| Total |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Ford Company** | | | | | | |
|  |  |  |  |  |  |  |
|  |  | Weight |  | Cost |  | After-tax  Marginal Weight |
|  |  |  |  |  |  |  |
| Equity (E) |  |  | X |  | = |  |
| Preferred (P) |  |  | X |  | = |  |
| Debt (D) |  |  | X |  | = |  |
|  |  |  |  |  |  |  |
| Total |  |  | X |  | = |  |