Miss Maria Company is a multinational company dealing in consumer products. It expects its EBIT (Earnings before interest and tax) to be $151.52 every year. Miss Maria currently has no debt and its cost of equity is 20%. The firm is debating whether to convert its all equity capital structure. The firm can borrow at 10%.

Required:

1. If the Tax rate is 34%, what is the value of firm?
2. What will be the value assuming the firm decides to borrow $500 and uses the proceeds to repurchase its shares?
3. What will be the impact on cost of equity after recapitalisation and what is the weighted average cost of capital?
4. Discuss the implications for the firm's capital structure decision? Whether the firm should change its capital structure.