1. Determining Portfolio Weights: What are the portfolio weights for a portfolio that has 100 shares of Stock A that sell for $40 per share and 130 shares of Stock B that sell for $22 per share?
2. Portfolio Expected Return: You own a portfolio that is 50 percent invested in Stock X, 30 percent in Stock Y, and 20 percent in Stock Z. The expected returns on these three stocks are 10 percent, 16 percent, and 12 percent, respectively. What is the expected return on the portfolio?
3. Calculating Expected Return: Based on the following information, calculate the expected return:

State of Economy Probability of State of Economy Rate of Return if State

Occurs

**Recession .30 -.09**

**Boom .70 .33**

1. Calculating Returns and Standard Deviations: Based on the following information, calculate the expected return and standard deviation for the two stocks:

State of Economy Probability of State of Economy Rate of Return if State Occurs

Stock A Stock B

Recession .15 .06 -.20

Normal .60 .07 .13

Boom .25 .11 .33

1. Calculating cost of equity: The Mays Co. just issued a dividend of $2.60 per share on its common stock. The company is expected to maintain a constant 6 percent growth rate in its dividends indefinitely. If the stock sells for $60 a share, what is the company’s cost of equity?
2. Calculating cost of equity: Stock in Country Road Industries has a beta of 1.25. the market risk premium is 7 percent, and T-bills are currently yielding 5 percent. Country Road’s most recent dividend was $2.10 per share, and dividends are expected to grow at a 5 percent annual rate indefinitely. If the stock sells for $34 per share, what is your best estimate of the company’s cost of equity
3. Calculating Cost of Preferred Stock: Holdup Bank has an issue of preferred stock with a $5 stated dividend that just sold for $87 per share. What is the bank’s cost of preferred stock?
4. Calculating Cost of Debt: Jiminy’s Cricket Farm issued a 30-year, 9 percent semiannual bond 7 years ago. The bond currently sells for 108 percent of its face value. The company’s tax rate is 35 percent.
5. What is the pretax cost of debt?
6. What is the aftertax cost of debt?
7. Which is more relevant, the pretax or the aftertax cost of debt? Why?
8. Calculating WACC: Mullineaux Corporation has a target capital structure of 50 percent common stock, 5 percent preferred stock, and 45 percent debt. Its cost of equity is 15 percent , the cost of preferred stock is 6 percent, and the cost of debt is 8 percent. The relevant tax rate is 35 percent.
9. What is Mullineaux’s WACC?
10. The company president has approached you about Mullineaux’s capital structure. He wants to know why the company doesn’t use more preferred stock financing because it costs less than debt. What would you tell the president?