Use the following information to work Problems 1 and 7. You work for a nuclear research laboratory that is contemplating leasing a diagnostic scanner (leasing is a common practice with expensive, high-tech equipment). The scanner cost $300,000, and it would be depreciated straight-line to zero over four years. Because of radiation contamination, it will actually be completely valueless in four years. You can lease it for $895,000 per year for four years.

1. **Lease or Buy** Assume that the tax rate is 35 percent. You can borrow at 8 percent before taxes. Should you lease or buy

**7. Lease or Buy** Super Sonics Entertainment is considering buying a machine that costs $350,000. The machine will be depreciated over five years by the straight-line method and will be worthless at the time. The company can lease the machine with year-end payments of $94,200. The company can issue bonds at a 9 percent interest rate. If the corporation tax rate is 35 percent, should the company buy or lease?

8. **Setting the Lease Payment** Quartz Corporation is a relatively new firm. Quartz has experienced enough losses during its early years to provide it with at least eight years of tax loss carryforwards. Thus, Quartz’s effective tax rate is zero. Quartz plans to lease equipment from New Leasing Company. The term of the lease is five years. The purchase cost of the equipment is $650,000. New Leasing Company is in the 35 percent tax bracket. There are no transaction costs of the lease. Each firm can borrow a t 7 percent. (Solve for the NAL) and decide.