1)Ethier Enterprise has an unlevered beta of 1.25. Ethier is financed with 35% debt and has a levered beta of 1.35. If the risk free rate is 6% and the market risk premium is 7%, how much is the additional premium that Ethier's shareholders require to be compensated for financial risk? Round your answer to two decimal places.

2)Schweser Satellites Inc. produces satellite earth stations that sell for $95,000 each. The firm's fixed costs, F, are $2.5 million, 50 earth stations are produced and sold each year, profits total $600,000; and the firm's assets (all equity financed) are $4 million. The firm estimates that it can change its production process, adding $4 million to investment and $420,000 to fixed operating costs. This change will (1) reduce variable costs per unit by $10,000 and (2) increase output by 16 units, but (3) the sales price on all units will have to be lowered to $80,000 to permit sales of the additional output. The firm has tax loss carryforwards that render its tax rate zero, its cost of equity is 16%, and it uses no debt.

1. What is the incremental profit?
$   
To get a rough idea of the project's profitability, what is the project's expected rate of return for the next year (defined as the incremental profit divided by the investment)? Round your answer to two decimal places.
%
Should the firm make the investment?

2. Would the firm's break-even point increase or decrease if it made the change?

3. Would the new situation expose the firm to more or less business risk than the old one?

**I.** The new situation would have less business risk than the old one.
**II.** It is impossible to state unequivocally whether the new situation would have more or less business risk than the old one.
**III.** The new situation would have more business risk than the old one.