**Problem I am having trouble with!**

**As a member of the Finance Department of Ranch Manufacturing, your supervisor has asked you to compute the appropriate discount rate of use when evaluating the purchase of new packaging equipment for the plant. You have determined the market value of the firm’s capital structure as follows:**

**SOURCE OF CAPITAL MARKET VALUES**

Bonds $4,000,000

Preferred stock $2,000,000

Common stock $6,000,000

To finance the purchase, Ranch Manufacturing will sell 10-year bonds paying 7 percent per year

at the market price of $1,050. Flotation costs for issuing the bonds are 4 percent of the market

price. Preferred stock paying a $2.00 dividend can be sold for $25; the cost of issuing these shares is $3 per share. Common stock for Ranch Manufacturing is currently selling for $55 per share. The firm paid a $3 dividend last year and expects dividends to continue growing at a rate of 10 percent per year. Flotation costs for issuing new common stock will be $5 per share and the firm’s tax rate is 30 percent. What discount rate should you use to evaluate the equipment purchase?