1. Why is profit maximization, by itself, an inappropriate goal? What is meant by the goal of maximization of shareholder wealth? [30 points]

22  2. Assume the following data for Cable Corporation and Multi-Media, Inc.

|  |  |  |
| --- | --- | --- |
| $ | ***Cable Corporation*** | ***Multi-Media, Inc.*** |
| Net income | 30,000 | 100,000 |
| Sales | 300,000 | 2,000,000 |
| Total assets | 400,000 | 900,000 |
| Total debt | 150,000 | 450,000 |
| Stockholders’ equity | 250,000 | 450,000 |

 a.    Compute return on stockholders’ equity for both firms using ROE-ratio Net income / stockholders’ equity.  Which firm has the higher return?  b.    Compute the following additional ratios for both firms: Net income / Sales Net income / Total assets Sales / Total assets Debt / Total assets  c.    Discuss the factors from part b. above  that added or detracted from one firm having a higher return on stockholders’ equity than the other firm as computed in part a. above. [40 points]

3. Assume you will need $30,000 each year over the next 20 years to live at the standard you desire. Also estimate the rate of return you can reasonably expect to earn annually, on average, during that 20 year period by investing in a stock portfolio similar to the S&P 500 (e.g. 9%).  a. How large a single lump sum would you need today to provide the annual cash required to allow you to live at the desired standard over the next 20 years?  b. Would the lump sum calculated in part a. be larger or smaller if you would have invested in a bond portfolio (e.g. 6%)? Explain.  c. What conclusions do you draw for your retirement investments? [30 points]