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(11) i, Beta is a measure ~~of~~ of stocks volatality in relation to the overall market

$$\beta = \frac{cov(i, market)}{var_{mkt}}$$

(ii) Factors that determine beta:-

* Nature of the business
* Financial leaverage of the company
* Operating leaverage of the company

iii) As an investor, I would be interested in buying a stock with Beta is equal to one because the stock price will tend to move with the market. On the other hand I will not be interestea in buying a stock with Beta is equal to -1 because this means stock will go against the market

(iv) Any asset with risk free rate can have a Beta equal to zero. eg:- Govt. Bonds

(12) D/E = 1:1 $\quad$ $E(R_{mkt}) - R_f = 5\%$

$R_f = 7\%$ $\quad$ Gross cost of debt = 9%

$\beta = 1.5$ $\quad$ Tax = 25%

Net cost of debt = Interest (1 − Tax%)
$= 9\%(0.75)$
$= 6.75\%$

$\text{cost of equity} = R_f + [E(R_{mkt}) - R_f] \times \beta$

$= 7\% + 7.5\%$

$= 14.5\%$

$\text{WACC} = \text{Cost of equity} \times \frac{E}{V} + \text{Net cost of debt} \times \frac{D}{V}$

$= \left(14.5\% \times \frac{1}{1+1}\right) + \left(6.75 \times \frac{1}{2}\right)$

$= \frac{1}{2}[14.5 + 6.75\%] = \frac{21.25\%}{2} = 10.625$

ii) As the company pays all its debt the ROE will fall down as the equity value will go up because of low debt. That means will be harder for the company to generat profits

14) i) Current ratio is the ratio of current asses by its current liabilities. The current ratio is used to asses a company's short term liquidity with respect to its available assets & pending liabilities.

ii) The term debtors turnover refers to an accounting measure that quantifies a company's effectiveness in collecting its accounts receivable. It is calculated by deviding average account receivable ~~from~~ from net credit sales. It is used in business accounting to quantify how well companies are managing their credit that may extend to their customer.

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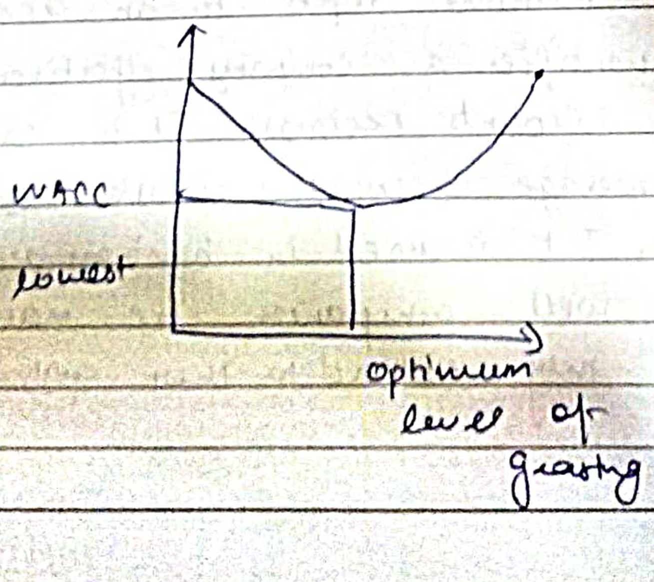
ii) The finance manager should track current ratio on regular basis as this ratios will help him know whether the company will be able pay its debt due in 12 months.
The formula of current ratio is:-

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liability}}$$

(5) i) The company has a debt to equity ratio of 1:1 which is considered good with a RV of 8%, above that the dividend yield is 4%, which is pretty good & a less risky dividend yield.
cost of capital for the investor should be 9.6%.

ii) Traditional view of the effect of gearing says that leaveraging. Decreases the WACC until an optimum level. More leaverage results in higher costs of equity because decrease in WACC means increase in company's value which results in increasing the cost of equity



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iii) Miller Modigliani's (MM) irrelevance proposition states the capital structure does not effect WACC, thereby does not effect valuation

Assumptions made by MM were: