

VALUES:

COST OF RATE	10%
TAX RATE	30%
PREFERRED DIVIDEND	\$5.00
PREFERRED STOCK PRICE	\$50.00
EXPECTED COMMON DIVIDEND	\$4.25
COMMON STOCK PRICE	\$38.00
COMMON STOCK CONSTAN GROWTH RATE	5%
% COMMON STOCK IN CAPITAL STRUCTURE	75%
% DEBT IN CAPITAL STRUCTURE	15%
% PREFERRED STOCK IN CAPITAL STRUCTURE	10%

A)

COST OF DEBT=	COST OF DEBT * (1-TAX RATE)	7%
COST OF PREFERRED STOCK=	ANNUAL DIVIDEND/ PRICE OF PREFERRED STC	10.00%
COST OF RETAINED EARNING=	Expected dividend next year/price today +	16%

B)

ADAMSON'S WACC			
SOURCE	WEIGHT	COST OF CAPITAL	WEIGHTED
DEBT	15%		7%
PREFERRED STOCK	10%		10.00%
COMMON STOCK	75%		16%
		ADAMSON'S WACC=	

C)

PROJECT	EXPECTED RATE RETURN	WACC
1	16%	14%
2	15	14%
3	13.75	14%
4	12.5	14%

WACC*100

↳ growth rate*100%

COST

1%

1%

12%

14%

REASON

ACCEPTED RETURN IS GREATER THAN WACC

ACCEPTED RETURN IS GREATER THAN WACC

REJECTED RETURN IS LESS THAN WACC

REJECTED RETURN IS LESS THAN WACC