Session 21: Post class test solutions

1. **c. 2.00.** To get the value, you divide the average unlevered beta across the sector by the correlation coefficient:
   - Correlation coefficient = Square root of $R^2 = 0.36^{0.5} = 0.6$
   - Total beta = $1.20/0.6 = 2.00$

2. **b. 33.33%.** First, estimate the market values of debt and equity:
   - Market value of equity = $600 \times 3 = 1800$
   - Market value of debt = $600$
   - D/E ratio = $600/1800 = 33.33%$

3. **b. $410,000.** Subtract the after-tax salary expense from the after-tax operating income:
   - After-tax operating income = $500,000$
   - Adjusted after-tax operating income = $500,000 - 150,000 (1.4) = 410,000$

4. **c. Abel Stores has more revenues than the typical companies that you value.**
   None of the other stated reasons would affect the illiquidity discount that you would attach to the company.

5. **c. Both.** Both would serve to reduce the fear of lost business and reduce the key person discount.