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 $R^2 = 0.36^{.5} = 0.6$
    - 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 * 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.