Session 19: 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 R² = 0.36^2 = 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.