

Case: The Boeing 7E7:

Advance Assignment Questions:

1. What is an appropriate required rate of return against which to evaluate the prospective IRRs from the Boeing 7E7?
2.
 - a. Please use the Capital Asset Pricing Model to estimate the cost of equity. At the date of the case, the 74-year equity market risk premium (EMRP) was estimated to be 8.4% over the 3-month t-bill rate and 6.4% over the 30-year t-bond rate. Which risk-premium and risk-free rate did you use? Why?
 - b. When you used the capital-asset pricing model, which beta did you use? Why?
 - c. Which capital-structure weights did you use? Why?
3. Judged against your WACC, how attractive is the Boeing 7E7 project?
 - a. Under what circumstances is the project economically attractive?
 - b. What does sensitivity analysis (your own and/or that shown in the case) reveal about the nature of Boeing's gamble on the 7E7?
4. Should the Board approve the 7E7?

For this case, you need to know that in the presence of corporate taxes:

$$\beta_{equity} = \left(1 + \frac{(1 - T_c) DEBT}{Equity} \right) \beta_{unlevered\ firm}$$