FINE 332 Corporate Finance I

Module 9 - Final Exam

1. JTM is considering purchasing a small Cessna for corporate travel. The price is $700,000. The dealer is offering a payment plan in which JTM pays 50% down and finances the rest over 12 months at $30,499/month. What is the implicit financing rate? If JTM's WACC is 7.9%, should it accept the financing offer?

2. ABC FBO is looking to buy a flight school. It is being offered an established school whose owner wants to sell. ABC's CFO gave you the school's numbers and asked you to calculate its price. The CFO asks that you use a 4.5% discount rate and a 2% growth rate for year 6 and on. What should ABC consider paying for the flight school?

3. JTM's treasury office is looking at buying a bond to earn some money on its cash balances. It has four options, all semi-annual bonds, to pick from:

	A	B	C	D
Coupon	3.3%	4.1%	4.5%	0.0%
PAR Value	1,000	1,000	1,000	1,000
Market Rate	4.6%	3.8%	4.5%	3.2%

The market rate is the expected yield for a bond of that credit quality. They have price quotes, but they want you to calculate the prices of each bond independently.

One week after you provided the prices (which were right, by the way), they ask you to calculate the yields being earned on four bonds that JTM owns. The details are:

	D	E	F	G
Coupon	2.88%	5.15%	4.26%	0.0%
PAR Value	1,000	1,000	1,000	1,000
Market Price	(983)	(1,032)	(1,072)	(565)

Continues on the next page

4. JTM

   A. JTM pays its C-suite officers with stock options. Treasury asked you to price them. JTM's stock trades at $11.25/share; U.S. Treasurys, aka the risk-free rate, yield 1.97% and stock's volatility is 18%. The details of the stock option offers are below. What are the prices of the options?

	CEO	CFO	CIO
Exercise Price	22.00	21.00	20.00
Maturity (yrs.)	7.0	5.0	3.0

   B. JTM's treasury unit bought jet fuel futures to hedge its expenses. It uses 9.5M gallon/yr. Each contract runs 42,000 gallons. The contract price locked JTM at $1.6355/gal. At maturity, JTM found that the spot price was $1.6210/gal. In effect, had they not taken the futures, they'd have paid less. What was the loss on the contract?