Quiz B: 4/18/12

Name & Time ___________________________

Quiz: Given the following information, set up the calculations required to determine the beta of Spain’s Leverage Inc.’s assets and debt. Plug in as many numbers as possible.

Information on:

Spain’s Leverage stock: current market value = $20,000, beta = 1.2
Spain’s Leverage bonds: maturity = 6 years, maturity value = $80,000, current market value = $50,000
Returns: Spain’s Leverage bonds = 8.1%, U.S. Treasuries that mature in 6 years = 3%
If we value Spain’s Leverage stock as a call on the firm’s assets: the price of a U.S. Treasury that matures for $85,000 in 6 years = $66,999, implied volatility = 28.1%, d₁ = 0.4081, d₂ = -0.2809

Note: Bonus WSJ Questions on back of page