

Quiz: 3/19/12

Name & Time _____

Quiz: Assume the corporate tax rate is 30%, the personal tax rate on interest income is 25% and the personal tax rate on equity income is 20%. Determine the optimal capital structure for Android Corporation if the firm has a 45% chance of having an annual EBIT of \$1,000,000 and a 55% of having an annual EBIT of \$3,000,000. What is Android's optimal level of interest payments?

Note: You will need to do enough calculations to show that your answer is optimal.