

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%, $d_1 = 0.4081$, $d_2 = -0.2809$

Note: Bonus WSJ Questions on back of page