

**Quiz B for 1:00 Class: 3/6/13**

**Name** \_\_\_\_\_

Assume the corporate tax rate equals 30%, that the personal tax rate on equity income equals 10%, and that the personal tax rate on interest income equals 20%. Assume also that TaxFlow Inc. has a 20% chance of earning \$5 million per year, a 30% chance of earning \$10 million per year, a 35% chance of earning \$25 million per year, and a 15% chance of earning \$50 million per year. What is TaxFlow's optimal level of interest payments?

Note: You will need to perform calculations to justify your answer. Show your work in case you need partial credit.

**Wall Street Journal Questions are on the back of this page.**