Final Exam sheet

CH 1

- ROE = PM * TATO * EM

$$\text{ROE} = \left(\frac{\text{Net Income}}{\text{Total Equity}}\right)\left(\frac{\text{Sales}}{\text{Sales}}\right) = \left(\frac{\text{Net Income}}{\text{Sales}}\right)\left(\frac{\text{Sales}}{\text{Total Equity}}\right)$$

CH6

- Current Yield = annual coupon / price
- Yield to maturity = current yield + capital gains yield

$$\text{Bond Value} = \text{C}\left[\frac{1 - \frac{1}{(1+\text{r})^{\text{N}}}}{\text{r}}\right] + \frac{\text{FV}}{(1+\text{r})^{\text{N}}}$$

Example: 10% coupon bond, with semiannual coupons, face value of 1,000, 20 years to maturity, $1,197.93 price

- Current yield = 100 / 1,197.93 = .0835 = 8.35%
- Price in one year, assuming no change in YTM = 1,193.68
- Capital gain yield = (1,193.68 – 1,197.93) / 1,197.93 = -.0035 = -.35%
- YTM = 8.35 - .35 = 8%

CH 7

$$P_0 = \frac{D_1}{1+r} + \frac{D_2}{(1+r)^2} + \cdots \frac{D_N}{(1+r)^N} + \frac{P_N}{(1+r)^N}$$

CH 9

- Income Tax = EBIT ×The Firm's Marginal Corporate Tax Rate
- OCF = R – C – D – T + D
- OCF = EBIT(1-t) + Dep.
  = (Rev. – Costs. – Dep.)(1-t) + Dep.
- OCF = (R – C)(1-T) – T*
- FCF = OCF – NCS – ΔNWC
- FCF = (□R - □C -□D)(1-T) + □D - □NCS - □NWC
- FCF = (□R - □C)(1-T) + T□D -□NCS -□NWC
- Cash Flow From Assets (CFFA) = OCF – net capital spending (NCS) – changes in NWC
- FCF is also called Cash Flows From Assets (CFFA)