**7TH WEEK ASSIGNMENT**

1 Why zero-coupon bond (Government Bond) should be selected as risk free investment for determining risk free rate of return? Explain in detail.

2 In measuring the returns, should we look at the cash flows generated by the project or at the accounting earnings? Why are accounting earnings different from cash flows?

**ACTIVITIES**

Ranbaxy as biotechnology firm had a beta of 1.70 in 2015. It had no debt outstanding at the end of that year.

a. Estimate the cost of equity for Ranbaxy, if the treasury bond rate is 6.4%.

b. What effect will an increase in long term bond rates to 7.5% have on Ranbaxy's cost of equity?

c. How much of Ranbaxy does risk can be attributed to business risk?