Access the [General Motors annual reports](http://www.annualreports.com/Company/general-motors) for the previous three years to calculate the corporation’s cost of capital. Then complete this worksheet using the directions within to guide you. Submit your completed worksheet in the “Assignment and Grades” tab in your course menu. When you have submitted this assignment for grading, please return to Module 3 for a module wrap-up.

|  |  |
| --- | --- |
| **Calculating the Cost of Financing** | |
| **Step 1.** Calculate the weighted average cost of capital using the after-tax cost of debt and a required rate of return for stock of 5% for each of the three years.  *Note: The tax rate can be found by dividing taxes paid by the taxable income. The pre-tax cost of debt can be found by dividing the interest paid by the amount of debt outstanding* | Weighted Average Cost of Capital (WACC)  *Show your calculations.*  Calculated Answer: |
| **Step 2.** Calculate the expected return of GM’s stock the using the Capital Asset Pricing Model. Use 1% as the risk-free rate, 1.3 as β, and 5% as the expected market rate. | GM’s Expected Return using the Capital Asset Pricing Model (CAPM)  *Show your calculations.*  Calculated Answer: |
| **Step 3.** Compare the weighted average cost of capital (WACC) with the return using the Capital Asset Pricing Model (CAPM). What does your comparison indicate? | Written Response: |
| **Step 4.** What does a β of 1.3 mean? | Written Response: |
| **Step 5.** Assess the risk of investing in GM stock compared to the market. Would you recommend investors to purchase the company’s stock? Why or why not? | Written Response: |