

1.

$$a) k_x = 0.10 + 1.0(0.06) = 0.16$$

$$V_x = \frac{\$0.64m}{0.16} = \$4m$$

b) The extra \$150,000 is being generated by assets with unchanged systematic risk and thus can be discounted at 16%

$$\text{Gain} = \frac{\$150,000}{0.16} = \$937,500$$

$$NPV_{\text{yam}} = \$937,500 - \$500,000 = \$437,500$$