International Corporate Finance, Fall 2008

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Assignment 0: This is an example of homework that will NOT be graded. Instead, will discuss about it the next class.

Q1. The growth rate of Musashino Electric and Gas Corp. (MEGC hereafter)'s cash flow has been very much constant over last three years.

	2004	2005	2006	2007	
Cash flow		317	371	322	(million yen)

So in order to estimate the value of the firm, you assumed that the future cash flow will be 322 million yen and will be constant forever.

(a) Using 9 percent discount rate, calculate the current value of MEGC at the end of 2007.

(b) Assuming 9 percent discount rate, calculate the current value of MEGC at the end of 2004.

(c) The book value of MEGC's debt is 1,875 million yen at the end of 2007. What is the value of MEGC's common equity?

(d) There are 69.67 million shares outstanding. What is the price per share?

(e) The MEGC's shares were traded at 21.63 yen. If your calculation is correct, the market valuation and your valuation are different. What does market see that you don't see? What will explain this difference?

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