**QUESTIONS FOR THE ‘OCEAN CARRIERS’ CASE STUDY**

**(TO BE ANSWERED IN THE STUDENT GROUP REPORTS)**

**DEADLINE: Monday, 17/10/2016, 18.00 (at PG secretary or instructor)**

In your group report, you should attempt to answer the following questions. For each question, a few pages should be enough; I should stress that I am mostly interested in understanding the quantitative analysis or reasoning that led you to your answer in the report. It is recommended that you supplement your report with a compact disk (cd) that contains any files that might facilitate me in understanding your answers (e.g. excel worksheets with computations of intermediate steps, etc.)

Questions

1. Assume that Ocean has a 9% discount rate for an all-equity investment, and that it is subject to 35% corporate taxation of profits. Should Ms. Linn purchase the $39M capesize?
2. By how much would your answer to 1 change if Ocean finances the investment with 40% equity and 60% debt (a bank loan). Explain/Justify any change from your answer in 1. You can assume that
   1. the bank loan has a 6% annual interest rate (annually compounded) and that the loan is to be repaid in 15 equal annual payments,
   2. the market loan has a beta coefficient of β = 0.40,
   3. the risk-free interest rate is 4%, and
   4. the market portfolio has an expected rate of return of Ε[Rm] = 7%.
3. Re-calculate your answers to 1 and 2 if the company decides to go against its policy, and operate the vessel for 25 years (instead of just 15 years that is the current company policy)