Cost of Capital Instructions Answer the following questions. Explain how you reached the answer or show your work if a mathematical calculation is needed, or both. Please respond to the following: 1. Bad Boys, Inc. is evaluating its cost of capital. Under consultation, Bad Boys, Inc. expects to issue new debt at par with a coupon rate of 8% and to issue new preferred stock with a $2.50 per share dividend at $25 a share. The common stock of Bad Boys, Inc. is currently selling for $20.00 a share. Bad Boys, Inc. expects to pay a dividend of $1.50 per share next year. An equity analyst foresees a growth in dividends at a rate of 5% per year. The Bad Boys, Inc. marginal tax rate is 35%. If Bad Boys, Inc. raises capital using 45% debt, 5% preferred stock, and 50% common stock, what is Bad Boys, Inc.’s cost of capital? 2. If Bad Boys, Inc. raises capital using 30% debt, 5% preferred stock, and 65% common stock, what is Bad Boys, Inc.’s cost of capital?

Writing instructions