

Ex 10.7

the Envy product design at YM^{Corp.} has two mutually exclusive alternatives A & B with

ROK $i_A^* = 9.7\%$ and $i_B^* = 5.9\%$.

Financing can be done in one of two ways

1. All equity funds currently earning 7% for YM^{Corp.} and 7.5% debt

Under Financing plan 2,

$$MARR = (0.25)(14.5) + (0.75)(8) = 9.625\%$$

Neither A, nor B are selected.

2. use funds from the corporate capital pool which is 25% debt capital costing 14.5% and the remainder from the equity funds earning 8%.