

FIN 685 Case Study Four Guidelines and Rubric

Capital structure is the percentage of a company's operating money acquired via debt or equity. It is also an acutely important management decision as it impacts a company's risk profile. The weighted average cost of capital (WACC) is an important tool for the capital structure. The cost of capital is a minimum rate of return on a project for the firm. The cost of capital is inversely related to the value of the firm. The lower the WACC is, the higher the firm's value. This case study will provide you an opportunity to explore practical considerations of an optimal capital structure and to calculate the WACC of two firms within the same industry.

Prompt: First, discuss three practical considerations that would guide you in selecting the optimal capital structure for your firm. Rank these considerations from the most to the least important and explain why you ranked them in that way. Next, go to the website [Yahoo! Industry Summary](#) and select two firms within the same industry. The industry may be that in which you currently work or it may be in another industry that interests you. Calculate the WACC for the two firms. Discuss how the WACCs compare and also discuss whether the WACCs are what you would expect. Lastly, discuss what might cause the differences between the two firms' WACCs.

Specifically, the following **critical elements** must be addressed:

- I. **Capital Structure**
 - a) Discuss **three practical considerations** that would guide you in selecting an optimal capital structure for your firm.
 - b) **Rank** the considerations from most important to least important and explain **why**.

- II. **WACC**
 - a) Select two firms within the same industry and **calculate the WACC** for each firm.
 - b) Discuss how the **WACCs compare**.
 - c) Discuss whether the **WACCs are what you would expect**.
 - d) Discuss **what might cause the differences** in the two WACCs.

Rubric

Guidelines for Submission: Your paper must be submitted as a 2-page (maximum) Microsoft Word document with double spacing, 12-point Times New Roman font, one-inch margins, and at least 2 sources, in addition to the textbook, cited in APA format.

Critical Elements	Exemplary (100%)	Proficient (90%)	Needs Improvement (70%)	Not Evident (0%)	Value
Capital Structure: Practical Considerations	Meets “Proficient” criteria and discussion uses scholarly research to support ideas	Discusses practical considerations that would provide guidance in selecting an optimal capital structure for a firm	Discusses practical considerations but lacks detail	Does not discuss practical considerations	15
Capital Structure: Rank and Why	Meets “Proficient” criteria and explanation uses scholarly research to support ideas	Ranks the considerations from most important to least important and explains why the ranking was chosen	Ranks the considerations but explanation lacks detail	Does not rank nor explain ranking	15
WACCs: Calculation	Correctly calculates the WACCs for the firms	Calculates the WACCs for the firms within the same industry, but some answers may not be correct	Calculates the WACCs for the firms but no answer is correct	Does not calculate the WACC	15
WACCs: Comparison	Meets “Proficient” criteria and comparison is particularly comprehensive	Compares the two WACCs	Compares the two WACCs but comparison lacks detail	Does not compare the two WACCs	15
WACCs: Expectation	Meets “Proficient” criteria and supports the discussion with information from course sources	Discusses whether the WACCs align with expectations	Discusses whether the WACCs align with expectations but discussion lacks detail	Does not discuss whether the WACCs align with expectations	15
WACCs: Cause of Differences	Meets “Proficient” criteria and supports the discussion with information from course sources	Discusses the cause of the differences in the two WACCs	Discusses the cause but lacks detail	Does not discuss the cause of differences	15
Articulation of Response	Submission is free of errors related to citations, grammar, spelling, syntax, and organization and is presented in a professional and easy to read format	Submission has no major errors related to citations, grammar, spelling, syntax, or organization	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas	10
Earned Total					100%