

CORPORATE FINANCE MANAGEMENT



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Short Description

CORPORATE FINANCE MANAGEMENT case study

Description

CASE 3: The MBA Decision

Ben Bates graduated from college six years ago with a finance undergraduate degree. Although he is satisfied with his with his current job, his goal is to become an investment banker. He feels that an MBA degree would allow him to achieve this goal. After examining schools, he has narrowed his choice to either Wilton University or Mount Perry College. Although internships are encouraged by both schools, to get class credit for the internship, neither school will allow its student to work while enrolled in its MBA program.

Ben currently works at the money management firm of Dewey and Louis. His

annual salary at the firm is \$50,000 per year, and his salary is expected to increase at 3 percent per year until retirement. He is currently 28 years old and expects to work for 35 more years. His current job includes a fully paid health insurance plan, and his current average tax rate is 26 percent. Ben has a savings account with enough money to cover the entire cost of his MBA program.

The Ritter College of Business at Wilton University is one of the top MBA programs in the country. The MBA degree requires two years of full-time enrollment at the university. The annual tuition is \$60,000, payable at the beginning of each school year. Books and other supplies are estimated to cost \$2,500 per year. Ben expects that after graduation from Wilton, he will receive a job offer for about \$95,000 per year, with a \$15,000 signing bonus. The salary at this job will increase at 4 percent per year. Because of higher salary, his average income tax rate will increase to 31 percent.

The Bradley School of Business at Mount Perry College began its MBA program 16 years ago. The Bradley School is smaller and less well known than the Ritter College. Bradley offers an accelerated one-year program, with a tuition cost of \$75,000 to be paid upon matriculation. Books and other supplies for the program are expected to cost \$3,500. Ben thinks that he will receive an offer of \$78,000 per year upon graduation, with a \$10,000 signing bonus. The salary at this job will increase at 3.5 percent per year. His average tax rate level of income will be 29 percent.

Both schools offer a health insurance plan that will cost \$3,000 per year, payable at the beginning of the year. Ben also estimates that room and board expenses will cost \$20,000 per year at both schools. The appropriate discount rate is 6.5 percent.

Questions

1. How does Ben's age affect his decision to get an MBA?
2. What other, perhaps no quantifiable, factors affect Ben's decision to get an MBA?
3. Assuming all salaries are paid at the end of each year, what is the best option

for Ben from a strictly financial standpoint?

- 4. Ben believes that the appropriate analysis is to calculate the future value of each option. How would you evaluate this statement?**
- 5. What initial salary would Ben need to receive to make him indifferent attending Wilton University and staying in his current position?**
- 6. Suppose, instead of being able to pay cash for his MBA, Ben must borrow the money. The current borrowing rate is 5.4 percent. How would this affect his decision?**

Details

1. Case study solved answers

2. pdf/word

3. Fully Solved with answers