**Canadice Lake Technologies, Inc.[[1]](#footnote-1)**

**Problem Set – Estimating the Discount Rate[[2]](#footnote-2)**

The following questions are based on the use of the Business Valuation Resources Cost of Capital tool to estimate the discount rate to be used in calculating a discount rate for Canadice Lake Technologies, Inc.

**Estimating the Discount Rate**

1. **How would you explain the use of the cost of capital as a discount rate to your client?**
2. **Given the information provided in this case, why do we not simply estimate the discount rate using the WACC equation as presented in our finance courses?**
3. **When setting up the cost of capital estimate in the BV Resources application, what is the relevance of selecting any particular reference year?**
4. **What is a good proxy for a risk free rate (RF or RFR)?**
5. **What does the equity risk premium (ERP) actually tell us?**
6. **When selecting the size premium, when should we use a given decile versus selecting an option representing multiple deciles?**
7. **What does the industry risk premium (IRP) actually tell us?**
8. **When a firm’s operations include revenues from more than one industry sector how can a reasonable industry risk premium be estimated?**
9. **What is an unsystematic risk premium?**
10. **Why might one include a company specific risk premium to the cost of capital estimate?**
11. **How do we estimate the equity percentage used in motivating the WACC calculation?**
12. **Given what you know about Canadice Lake Tech the use of the Cost of Capital tool to estimate the discount rate. Copy and paste the Summary findings in fulfillment of this item.**
1. This problem and solution set is intended to present an abbreviated discussion of the included finance concepts and is not intended to be a full or complete representation of them or the underlying foundations from which they are built. [↑](#footnote-ref-1)
2. This problem set was developed by Richard Haskell, PhD (rhaskell@westminstercollege.edu), Gore School of Business, Westminster College, Salt Lake City, Utah (2021) and Michael von Ballmoos (michael.vonballmoos@gmail.com) [↑](#footnote-ref-2)