MICHIGAN
ROSS SCHOOL OF BUSINESS

William Davidson Institute
AT THE UNIVERSITY OF MICHIGAN

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Cross-Border Valuation Exercise (A)

This exercise is intended to test your knowledge of cross border valuation techniques. It is designed to be used with the note, Cross Border Project Valuation (WDI Note #1-428-649).

Part A: Choosing a Discount Rate

Google is planning to open a service center in China. Consider the following:

	US / $	China/ RMB
U.S. Treasury 10-year note (Risk Free)	3%	--
Chinese government 10-year note (Risk Free)	5%	8%
Equity risk premium	8%	10%
Equity beta for a service center	1.7	2.3
Equity volatility	25%	33%

Using the information above, answer the following questions:

Q1: Which of the following statements is true?

a. The Chinese RMB is expected to appreciate by 3% annually over the next 10 years.

b. The Chinese RMB is expected to devalue by 3% annually over the next 10 years.

c. The Chinese RMB is expected to appreciate by 2% annually over the next 10 years.

d. The Chinese RMB is expected to devalue by 2% annually over the next 10 years.

Q2: What is the **country** risk premium for China?

a. 1%

b. 2%

c. 3%

d. 4%

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