<u>In class exercise – Notes #2</u>

- 1. Which of the following cannot be used to reduce taxable corporate income?
 - a. Advertising expense
 - b. Cash dividends
 - c. Interest expense
 - d. Depreciation expense
- 2. Assume a firm increases its revenue by \$1,000 while increasing its cost of goods sold by \$800. What is the change in net profit, if the firm's marginal tax rate is 21%?

3. Sam is an entrepreneur. He invented a machine that test for Covid, and patent the machine. Sam believes that he can sell the patent for \$200 million. He then formed a corporation and invested in it \$1 million. There are 2 million shares outstanding. If Sam's belief is correct, what would be the market price per share, and what would be the book value per share?