1. Explain the Miller model of debt and equity. What are the effects of a rise in the rate of taxation of capital gains?

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2. (Miller model again) \( T_C = .34 \) is the corporate tax rate, the value of EBIT packaged as equity is \( v_e \) and the demand for such equity is

\[ e = 300 - 10v_e - 300T_C \]

Similarly demand for EBIT packaged as debt is

\[ d = 180 - 10v_d \]

where \( v_d \) is the value of debt. Total cash flows in the economy are 150. What are the values of \( d \) and \( e \) in equilibrium? Illustrate in a diagram.

If the corporate tax rate falls to \( T_C = .3 \), what happens to \( e, d, v_e, \) and \( v_d \)? Illustrate.