

CFA® SAMPLE QUESTION - LEVEL I

Corporate Finance

Q: What happens to a company's weighted average cost of capital (WACC) if the firm's corporate tax rate increases and if the Federal Reserve cause an increase in the risk-free rate, respectively?

(Consider the events independently, and assume a beta of less than one.)

The firm's WACC will:

	<u>Tax rate increase</u>	<u>Increase in risk-free rate</u>
(a)	Decrease	Increase
(b)	Decrease	Decrease
(c)	Increase	Increase



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