

## CFA® SAMPLE QUESTION - LEVEL I

# Corporate Finance

**Q:** The cost of preferred stock is equal to:

### CORRECT ANSWER:

**Ⓒ the preferred stock dividend divided by its market price.**

Cost of preferred stock =  $kps = Dps / P$

It is not related to its par value.

Also for preferred stock, it won't have any tax shield benefit as common bonds (i.e. the  $1 - \text{tax rate}$ ) factor.



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