



CFA® SAMPLE QUESTION – LEVEL I

Equity Investments

Q: In calculating the weighted average cost of capital (WACC), which of the following statements is least accurate?

CORRECT ANSWER:

C The cost of debt is equal to one minus the marginal tax rate multiplied by the coupon rate on outstanding debt.

"After-tax cost of debt" = bond yield – tax savings = k – k t = k (1 – t)

Ans A is of course correct

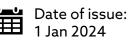
And B, remember for preferred equity capital P0 = d1/r = > i.e. r = d1/P0



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Mr. Zap Cheng, CFA
Candidate Services
Committee



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