

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:

Ⓒ 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 $P_0 = d_1 / r \implies$ i.e. $r = d_1 / P_0$



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