

Solution 1.60

In order to finance a new project costing \$30 million, a company borrowed \$21 million at 16% per year interest and used retained earnings valued at 12% per year for the remainder of the financing. The company's weighted average cost of capital for the project was closest to:

- (a) 12.5%
- (b) 13.6%
- (c) 14.8%
- (d) 15.6%

Solution:

$$\begin{aligned} \text{WACC} &= 0.70(16\%) + 0.30(12\%) \\ &= 14.8\% \end{aligned}$$

Answer is (c)