

**Finance 340 – Financial Management I**  
Quiz 3 – WACC

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- 1) A company had a target capital structure of 30 percent debt, 20 percent preferred stock, and 50 percent common equity. The yield to maturity of the firm's bonds is 8 percent, the yield on its preferred stock is 6 percent, and the required return on its common equity is 16 percent. If the firm's tax rate is 35 percent, what is its weighted average cost of capital?

$$\begin{aligned} WACC &= w_d r_d (1 - t) + w_p r_p + w_s r_s \\ &= 0.3 \times 8 \times (1 - 0.35) + 0.2 \times 6 + 0.5 \times 16 \\ &= 10.76\% \end{aligned}$$