

HW - Chapter 4 - Cost of Capital - Q16

Calculation of K_o

Sr. No	Type	Weight	% Cost	Cost	Cost
1	Debt	0	11%	0	$K_o = 13\%$
	Equity	100	13%	13	
2	Debt	10	11%	1.1	$K_o = 12.80\%$
	Equity	90	13%	11.7	
3	Debt	20	11.6%	2.32	$K_o = 13.52\%$
	Equity	80	14%	11.2	
4	Debt	30	12%	3.6	$K_o = 14.10\%$
	Equity	70	15%	10.5	
5	Debt	40	13%	5.2	$K_o = 14.80\%$
	Equity	60	16%	9.6	
6	Debt	50	15%	7.5	$K_o = 16.50\%$
	Equity	50	18%	9	
7	Debt	60	18%	10.8	$K_o = 18.80\%$
	Equity	40	20%	8.0	

Decision: 2nd option is the best because it has the lowest WACC.