#1-74A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: Company ABC has a debt-to-equity ratio of 2.0. The firm is evaluating the cost of equity for a project in the same line of business as Company XYZ.

The CFO of company ABC decided to use the pure-play method with Company XYZ as the comparable firm.

Company XYZ has a beta of 1.30 and a debt-to-equity ratio of 2.20.

So the project beta most likely is:

CORRECT ANSWER:

Ⓒ can be greater than or less than company ABC's beta.

The project beta calculated by using the pure-play method is not necessarily related in a predictable way to the beta of the firm that is performing the project.

CFA Society Hong Kong
Candidate Services

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Candidate Services Committee

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