**P9-14 WAAC and Market Weights**

Webster Company has compiled the information show in the following table.

|  |  |  |  |
| --- | --- | --- | --- |
| **Source of Capital** | **Book Value** | **Market Value** | **After-Tax Cost** |
| Long-Term Debt | $4,000,000 | $3,840,000 | 6.0$ |
| Preferred Stock | 40,000 | 60,000 | 13.0% |
| Common Stock Equity | 1,060,000 | 3,000,000 | 17.0% |
| Totals | $5,100,000 | $6,900,000 |  |

A. Calculate the weighted average cost of capital using book-value weights.

B. Calculate the weighted average cost of capital using market value weights.

C. Compare the answers obtained in parts A and B. Explain the differences.