

- 1) Because the weighted average is always a correct measure of a required return, why do firms not create securities to finance each project and offer them in the capital market in order to accurately determine the required return for the project?

The weighted average cost of capital (WACC) is adjusted to reflect the capital structure on impact firm value; in many cases the adjustment is only an estimate of a complex process (Emery, Finnerty, & Stowe, 2007). After this adjustment, you can use WACC directly in the valuation procedure without any other changes; the only difference is that the adjusted WACC reflects the firm's capital structure in addition to the project's risk (Emery, Finnerty, & Stowe, 2007). Firms do not create securities to finance each project and offer them in the capital market to accurately assess the required return for the project because it can depend upon tax laws, asymmetric considerations, and transaction costs associated with a given capital structure (Emery, Finnerty, & Stowe, 2007). Issuing separate securities for each project would be too expensive. Using this information, we cannot accurately do so without making assumptions that would only approximate the circumstances of the firm and the world in which it operates (Emery, Finnerty, & Stowe, 2007).

Reference

Emery, D. R., Finnerty, J. D., & Stowe, J. D. (2007). *Corporate financial management* (3rd ed.). Upper Saddle River, NJ: Pearson Prentice Hall.