

The lead software engineer at SafeSoft, a food industry service corporation, has convinced the president to develop a new software for the eat and Food industry. Funding is to be done through a ~~common~~ stock issue.

SafeSoft historical beta is 1.7, the US treasury bill rate is 4%, the market portfolio is returning 9%.

the cost of this equity financing is

$$R_E = R_f + B(R_M - R_f) = 4 + (9 - 4) \times 1.7 = 12.5\%$$