

Company Data	
Item	Value
Risk-Free Rate (Rf)	3%
Expected Market Return (Rm)	10%
Beta (β)	1.2
Current Divident (D ₀)	£1.50
Expected Dividend Growth Rate (g)	4%
Current Share Price (P ₀)	£25.00

Cost of Equity Calculation Table			
Model	Formula	Calculation	Cost of Equity (%)
CAPM	$R_f + \beta(R_m - R_f)$	$3\% + 1.2(10\% - 3\%)$	11.40%
DDM	$(D_1 / P_0) + g$	$((£1.50 * (1 + 4\%)) / £25.00) + 4\%$	10.24%

Sensitivity Analysis Table	
Beta	CAPM Cost of Equity (%)
1	10.00%
1.2	11.40%
1.4	12.80%
1.6	14.20%

Under the CAPM the company’s cost of equity is 11.40%, compared with 10.24% under the DDM. The CAPM captures systematic market risk through beta and the market risk premium, whereas the DDM relies solely on dividend yield and expected growth. A 0.1 increase in beta raises the CAPM cost of equity by 0.70 percentage points, demonstrating its sensitivity to beta changes. BlueLeaf Capital Industries’ emphasis on growth and reinvestment makes dividend based estimates unreliable, so the CAPM provides a more precise measure of market risk. Incorporating the higher CAPM based cost of equity into the WACC calculation raises the hurdle rate and ensures that only projects delivering sufficiently high returns are approved.

