

CHAPTER 9

⊙ BEFORE TAX COST OF DEBT (r_d)

$$r_d = \frac{I + \frac{1000 - Nd}{n}}{Nd + 1000}$$

⊙ AFTER TAX COST OF DEBT

$$r_i = r_d \times (1 - T)$$

⊙ COST OF PREFERRED STOCK

$$r_p = \frac{D_p}{N_p}$$

D_p = annual dollar dividend

N_p = net proceeds from the sale of stock

⊙ VALUE OF COMMON STOCK (constant-growth valuation model)

$$P_0 = \frac{D_1}{r_s - g}$$

D_1 = per share dividend expected

r_s = required return on common stock

g = constant rate of growth dividend

⊙ COST OF COMMON STOCK EQUITY

$$r_s = \frac{D_1}{P_0} + g$$

⊙ CAPM

$$r_s = R_F + [E(r_m - R_F)] \times \beta$$

R_F = risk-free rate

β = beta coefficient

r_m = market return

⊙ COST OF RETAINED EARNINGS

$$r_r = r_s$$

⊙ COST OF NEW ISSUES OF COMMON STOCK

$$r_n = \frac{D_1}{N_n} + g$$

⊙ WACC

$$r_a = (W_d \times r_d) + (W_p \times r_p) + (W_e \times r_e \text{ or } r_n)$$

Source of capital	Weight	cost	Weighted cost