

1. Record Nr.	UNINA9910132233903321
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Titolo	Cost of Capital : Applications and Examples
Pubbl/distr/stampa	Hoboken, : Wiley, 2014
ISBN	9781118846780 1118846788 9781118852804 111885280X
Edizione	[5th ed.]
Descrizione fisica	1 online resource (1345 p.)
Collana	Wiley Finance
Altri autori (Persone)	GrabowskiRoger J
Disciplina	658.15 658.152
Soggetti	Business enterprises -- Valuation -- Law and legislation -- United States Business enterprises -- Valuation Capital investments -- Law and legislation -- United States Capital investments
Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Description based upon print version of record.
Nota di bibliografia	Includes bibliographical references and index.
Nota di contenuto	Cost of Capital: Applications and Examples; Contents; About the Authors; Foreword; Preface; Acknowledgments; Part One: Cost of Capital Basics; Chapter 1: Defining Cost of Capital; Introduction; Components of a Capital Structure; Cost of Capital Is a Function of the Investment; Cost of Capital Is Forward-looking; Cost of Capital Is Based on Market Value; Cost of Capital Is Usually Stated in Nominal Terms; Cost of Capital Equals the Discount Rate; Discount Rate Is Not the Same as Capitalization Rate; Standard (Basis) of Value; Summary Chapter 2: Introduction to Cost of Capital Applications: Valuation, Project Selection, and Ratemaking Introduction; Net Cash Flow Is the Preferred Economic Income Measure; Cost of Capital Is the Proper Discount Rate; Present Value Formula; Example: Valuing a Bond; Applications to Businesses, Business Interests, and Capital Budgeting Projects; Applications in Ratemaking; Summary; Chapter 3: Net Cash Flow: The Preferred Measure of Economic Income; Introduction; Defining Net Cash Flow; Net Cash Flow to Common Equity Capital; Net

Cash Flow to Invested Capital

Net Cash Flows Should Be Probability-weighted Expected Values Why Net Cash Flow Is the Preferred Measure of Economic Income; Summary; Additional Reading; Appendix 3A: Alternative Measures of Economic Income; Introduction; Capital Cash Flow; Adjusted Present Value; Residua I Income; Chapter 4: Discounting versus Capitalizing; Introduction; Capitalization Formula; Example: Valuing a Preferred Stock; Functional Relationship between Discount Rate and Capitalization Rate; Major Difference between Discounting and Capitalizing; Constant Growth or Gordon Growth Model Criticisms of the Gordon Growth Model Combining Discounting and Capitalizing; Two-stage Model; Three-stage Model; Three-stage Model with Gradual Change in Growth; Equivalency of Discounting and Capitalizing Models; Summary; Appendix 4A: Equivalency of Capitalizing Residual Income; Chapter 5: Discounting-Beyond the Basics; Introduction; Midyear Convention; Midyear Discounting Convention; Midyear Capitalization Convention; Midyear Convention in the Two-stage Model; Seasonal Businesses; Matching Projection Periods to Financial Statement Dates: Partial First Year; Changing Risk over Time Midyear Convention in Two-stage Model with Changing Risk Duration of an Investment; Summary; Chapter 6: Relationship between Risk and the Cost of Capital; Introduction; Defining Risk; How Risk Affects the Cost of Capital; Valuation of Risky Net Cash Flows; Risk Aversion versus Risk Neutrality; Market Returns Increase as Risk Increases by Asset Class; Types of Risk; Maturity Risk; Market Risk; Company-specific Risk; Liquidity and Marketability Risk; Measuring Riskiness of Net Cash Flows; ASC 820 Fair Value Measurement: Cash Flows and Present Value Discount Rates; Summary Part Two: Estimating the Cost of Equity Capital

Sommario/riassunto

A one-stop shop for background and current thinking on the development and uses of rates of return on capital Completely revised for this highly anticipated fifth edition, Cost of Capital contains expanded materials on estimating the basic building blocks of the cost of equity capital, the risk-free rate, and equity risk premium. There is also discussion of the volatility created by the financial crisis in 2008, the subsequent recession and uncertain recovery, and how those events have fundamentally changed how we need to interpret the inputs to the models we use to develop the
