

*Standard Deviants School The Wild and Wacky World of Finance*

Tape Eight: *Cost*

Length: 26 minutes, © 2002 Cerebellum Corporation

Audience: 7-12 grades

*Cost* continues to explore the cost of different capital components and introduces the basic concepts of the capital budgeting process.

*Standard Deviants School The Wild and Wacky World of Finance: Cost*

- I. Cost of Preferred Stock
  - A. Cost of preferred stock
  - B. Underwriting costs
  
- II. Cost of Retained Earnings
  - A. Required rate of return of the stockholders
  - B. Three approaches to determining cost of retained earnings
    1. CAPM
      - a. Analyst dislikes for using CAPM to find cost of retained earnings
        - i. Too hard to determine beta
        - ii. Indecisive about which market to use to get an estimate of the market rate
    2. Bonds Yield Plus Risk Premium
    3. Discounted Cash Flow
  
- III. Cost of Issuing New Common Stock
  - A. Floatation costs for common stock
  
- IV. Calculating the Weighted Average Cost of Capital (WACC)
  - A. Example of calculation
  
- V. Marginal Cost of Capital
  - A. Definition
  
- VI. The Basics of Capital Budgeting
  - A. Capital budgeting
  - B. Examples of capital investments
    1. Acquisition of property, new business
    2. Purchase of equipment
    3. New product development
  - C. Origin of capital budgeting ideas