

[Home](#) > [Journal of Regulatory Economics](#) > [Article](#)

The regulated firm and the DCF model: Some lessons from financial theory

Published: 28 March 2014

Volume 2, pages 191–200, (1990) [Cite this article](#)



[Journal of Regulatory Economics](#)

[Aims and scope](#) →

[Submit manuscript](#) →

[William Beranek](#)¹ & [Keith M. Howe](#)²

 215 Accesses  2 Citations [Explore all metrics](#) →

Abstract

This paper explores lessons from established financial theory for allowed rate of return calculations within the constant-growth dividend (DCF) framework. Analysts using this model have been wedded to the conventional cost-of-equity formula. We set forth equivalent alternatives which make the analysts' task easier, more precise, and more confident. What is even more important, we derive a set of consistency conditions that must be observed for the appropriate use of the model. We also use a basic capital-market principle to determine an alternative, flotation-cost adjusted, rate of return, an expression which provides useful insights for regulatory participants.

Access this article

[Log in via an institution](#) →

[Buy article PDF 39,95 €](#)

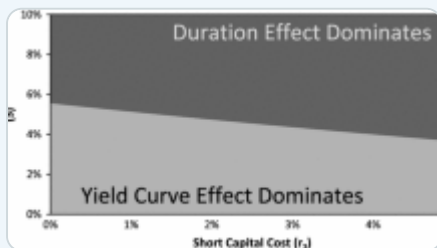
Price includes VAT (Poland)

Instant access to the full article PDF.

Rent this article via [DeepDyve](#) ↗

[Institutional subscriptions](#) →

Similar content being viewed by others



The capital structure of a firm under rate of return regulation: durability and the yield curve

Article | 25 February 2015

The implied cost of capital: accounting for growth

Article | 21 July 2023

Bank holding company dividend policy, regulatory guidance and the Great Recession

Article | 11 February 2015

References

Bierman, H. Jr., and J. Hass. 1984. "Equity Flotation Cost Adjustment in Utilities' Cost of Service." *Public Utilities Fortnightly* 113 (March):46-49.

[Google Scholar](#)

Brigham, F.E., D. Aberwald, and L. C. Gapenski. 1985. "Common Equity Flotation Costs and Rate Making." *Public Utilities Fortnightly* 115 (May):28-36.

[Google Scholar](#)

Fama, E.F., and M.H. Miller. 1972. *The Theory of Finance*. Illinois: Holt, Rinehart and Winston, Inc.

[Google Scholar](#)

Howe, K.M., and E.F. Rasmussen. 1982. *Public Utility Economics and Finance*. New Jersey: Prentice-Hall, Inc.

[Google Scholar](#)

Kahn, A.E. 1970. *The Economics of Regulation: Principles and Institutions*. New York: John Wiley and Sons, Inc.

[Google Scholar](#)

MacDonald, J. 1967. *Valuation of Common Stock and the Cost of Equity Capital*. Unpublished Ph.D. thesis. Stanford Graduate School of Business.

Myers, S.C. 1972. "Finance Theory in Rate Cases." *The Bell Journal of Economics and Management Science* 3 (Spring): 58-97.

[Article](#) [Google Scholar](#)

Patterson, C.S. 1981. "Issue Costs in the Estimation of the Cost of Equity Capital." *Public Utilities Fortnightly* 108 (July): 28-32.

[Google Scholar](#)

Patterson, C.S. 1983. "Flotation Cost Allowance in Rate of Return Regulation: Comment." *Journal of Finance* 38 (September): 1335-38.

[Article](#) [Google Scholar](#)

Author information

Authors and Affiliations

University of Georgia, Preston Brooks Hall, 30602, Athens, GA, Greece

William Beranek

DePaul University, 25 East Jackson, 60604, Chicago, IL, USA

Keith M. Howe

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Beranek, W., Howe, K.M. The regulated firm and the DCF model: Some lessons from financial theory. *J Regul Econ* **2**, 191–200 (1990). <https://doi.org/10.1007/BF00165933>

Published

28 March 2014

Issue Date

June 1990

DOI

<https://doi.org/10.1007/BF00165933>

Keywords

[Share Price](#)

[Equity Capital](#)

[Dividend Payout](#)

[Equity Base](#)

[Discount Cash Flow](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research

