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Journal of Financial Research / Volume 12, Issue 2 / pp. 143-156

Article

THE COST OF CAPITAL, MACAULAY'S DURATION, AND TOBIN'S *q*

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First published: Summer 1989

https://doi.org/10.1111/j.1475-6803.1989.tb00109.x

The authors wish to thank Stephen Ross and E. Lindenberg for providing the Tobin *q* data. They also acknowledge the incisive comments of two referees of this journal and the competent programming assistance of Asher Reves. Partial funding of this research by the Kruger Fund at the Jerusalem School of Business, The Hebrew University, is gratefully acknowledged.

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Abstract

It is shown empirically that the cost of equity capital estimated from the dividend discount model and Tobin's *q* are negatively related. The theoretical relationship between these variables is exploited to determine alternative estimates of the cost of equity capital and Macaulay's duration without having to estimate the growth rate g in the conventional manner. This new approach can readily be implemented for large firms reporting SFAS No. 33 data.

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