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Article

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

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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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