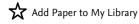
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A General Formula for the WACC: A Comment

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5 Pages

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Abstract

This note builds on the paper of Farber, Gillet and Szafarz (2006). The WACC is a discount rate widely used in corporate finance. However, the correct calculation of the WACC rests on a correct valuation of the tax shields. The value of tax shields depends on the debt policy of the company. Many authors, (e.g. Inselbag and Kaufold (1997), Booth (2002), Cooper and Nyborg (2006), Farber, Gillet and Szafarz (2006)) consider that debt policy may only be framed in terms of maintaining a fixed market value debt ratio (Miles-Ezzell assumption) or a fixed dollar amount of debt (Modigliani-Miller assumption).

Keywords: WACC, required return to equity, value of tax shields, company valuation, APV, cost of equity

JEL Classification: G12, G31, G32

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