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Ten Badly Explained Topics in Most Corporate Finance Books

IESE Business School Working Paper No. 954

15 Pages
Posted: 7 Jun 2012

Pablo Fernandez (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=12696)

IESE Business School

There are 2 versions of this paper

Date Written: June 6, 2012

Abstract

This paper addresses 10 corporate finance topics that are not well treated (or not treated at all) in many Corporate Finance Books. The topics are: 1. Where does the WACC equation come from? 2. The WACC is not a cost. 3. What is the WACC equation when the value of the debt is not equal to its nominal value? 4. The term equity premium is used to designate four different concepts. 5. Textbooks differ a lot on their recommendations regarding the equity premium. 6. Which Equity Premium is used by professors, analysts and practitioners? 7. Calculated (historical) betas change dramatically from one day to the next. 8. Why do many professors still use calculated (historical) betas in class? 9. EVA does not measure Shareholder value creation. 10. The relationship between the WACC and the value of the tax shields (VTS)

Keywords: WACC, beta, equity premium, EVA, value of tax shields, required return to equity

JEL Classification: G12, G31, M21

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