



The Engineering Economist >

A Journal Devoted to the Problems of Capital Investment

Volume 56, 2011 - [Issue 2](#)

1,088 Views | 13 CrossRef citations to date | 0 Altmetric

ARTICLES

Does the Weighted Average Cost of Capital Describe the Real-World Approach to the Discount Rate?

Stanley Block

Pages 170-180 | Published online: 09 Jun 2011

Cite this article <https://doi.org/10.1080/0013791X.2011.573618>



Full Article

Figures & data

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

Abstract

Almost every capital budgeting textbook has a chapter on the weighted average cost of capital (WACC). Though this is theoretically satisfying, it does not describe how companies actually operate. The WACC calls for a balanced capital structure in which debt and equity are utilized at some predetermined percentage. The problem is that researchers have shown that firms try to avoid selling new shares whenever possible. This leads to the pecking order theory in which firms first use internal funds, then low-risk debt, then high-risk debt, and finally, as a last resort, new common stock. There is no attempt to balance the capital structure. This survey study basically confirms that approach.

People also read

Recommended articles

Cited by
13

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up

