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## ARTICLES

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

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## 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 research shows that companies do not always follow the WACC. This leads to a higher risk debt structure, then low-risk debt. There is no alternative approach that firms that

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