



The Engineering Economist >

A Journal Devoted to the Problems of Capital Investment

Volume 37, 1992 - [Issue 2](#)

51 Views | 3 CrossRef citations to date | 0 Altmetric

TECHNICAL NOTE

The Weighted Average Cost of Capital: A Caveat

Stan Paulo

Pages 178-183 | Published online: 23 Oct 2007

🗨️ Cite this article 🔗 <https://doi.org/10.1080/00137919208903067>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

📖 References

🗨️ Citations

📊 Metrics

🖨️ Reprints & Permissions

Read the full text

We Care About Your Privacy

We and our 911 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage .Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

Identify you and others using precise geolocation data

I Accept

Reject All

Show Purpose

TECHNICAL NOTE

The Weighted Average Cost of Capital: A Caveat

Stan Paulo
University of Natal: Pietermaritzburg

INTRODUCTION

The debate between the proponents of the weighted average cost of capital (henceforth WACCists) and the proponents of sequential marginal costing (henceforth sequentialists) is one of the most fundamental debates in engineering economy. This debate is unresolved and would seem to be the subject of an academic truce. The purpose of this paper is to show that the WACC is subject to serious reservations if used as a capital budgeting discount rate. The determination of the discount rate for capital budgeting must be consistent with the principles underlying the determination of the net cash flows of capital projects.

THE WEIGHTED AVERAGE COST OF CAPITAL

The WACCists argue that the firm should be viewed as an ongoing concern, and the discount rate should be calculated as a weighted average of the various types of finance it uses, regardless of the specific financing used to fund a particular capital project (Brigham 1985: 250), (Weston & Copeland 1986: 612), (Ben-Horim 1987: 144-146), (Van Horne 1980: 234), (Levy & Sarnat 1982: 408-409). WACCists assert that even though a specific source of finance with a known cost is used to fund a project, this cost of capital should not be used as the discount rate. They argue that the use of one source of finance affects the firm's



Log in

> Acc

Log in

> Log in

Restore content access

➤ Restore content access for purchases made as guest


Purchase options *

Save for later

PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed


EUR 56.00

 Add to
cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 93.00

 Add to
cart

* Local tax will be added as applicable

Related



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



Sign me up



Copyright ©

Accessib

Registered
5 Howick Pl

or & Francis Group
orma business

