



[Glossary]

Cost of Capital

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit – 3 Cost of Capital and Financing Decision
Lecture No. & Title:	Lecture – 1 Cost of Capital

Glossary

Cost of equity

“Minimum rate of return that a firm must earn on the equity financed portion of an investment project in order to leave the market price of the shares unchanged”.

Debt

It refers to borrowed funds for a fixed period.

Face value

It is a nominal value of the security stated by the issuer.

Floatation Cost

Costs incurred to issue shares or debentures are termed as floatation costs. The examples of such costs are printing prospectus, legal expenses, advertisement cost, underwriting commission etc.

Marginal Cost

Marginal cost is the average cost of additional funds raised for a new investment scheme.

Perpetual debt

A debt with no maturity date, such debt is not redeemable but pays a steady stream of interest forever.

Redeemable debt

The debt which is repayable at the end of a specific period is redeemable debt.

Retained earnings

The cost of retained earnings may be defined as opportunity cost in terms of dividend foregone by the, or withheld from the equity shareholders.

Specific Costs

It refers to the cost of each specific sources of finance like cost of equity cost of preference share cost of debt cost of retained earnings.