



[Glossary]

Theories of Capital Structure- Part-II

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 – 3 Theories of Capital Structure- Part-II

Glossary

Capital Markets

Market of long term securities. It comprises of Primary Market and secondary market. Securities are issued by companies to raise funds in primary market and securities already issued in primary market are traded in secondary market.

Corporate tax

Tax levied by the Government on net profit of companies

Opportunity cost of capital

The opportunity cost of making a specific investment. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk. Thus, the cost of capital is the rate of return required to persuade the investor to make a given investment.

Transaction cost

Cost of trading in securities in secondary market

Weighted average cost of Capital

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. The WACC is commonly referred to as the firm's cost of capital.