

Cost of Equity

@wikipedia

Shareholders' expectation on the annual return rate on its **equity** in the **Business**:

$$K_E = \frac{\text{Return}}{E}$$

where

Return	annual cash return , whether as dividends or as capital growth
E	Shareholder's equity

The most popular model of estimating the **Cost of Equity** is **Capital Asset Pricing Model (CAPM)**:

$$K_E = R_f + \beta \cdot R_p$$

where

R_f	risk-free bond (like for example U.S. Treasury Bond)
R_p	risk premium $R_p = R_m - R_f$, where R_m is historical average return of the stock market
β	sensitivity to the market risk for the security

See also

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[[Capital Asset Pricing Model \(CAPM\)](#)]