Cost of Equity

@wikipedia

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

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

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

Business / Business Administration / Financial Management / Financial Accounting

[Capital Asset Pricing Model (CAPM)]