

Standard Deviants School The Wild and Wacky World of Finance
Tape Seven: *Important Concepts*
Length: 26 minutes, © 2002 Cerebellum Corporation
Audience: 7-12 grades

Important Concepts covers the basics of understanding terminology associated with stocks and introduces the cost of capital concept by exploring the cost of debt.

Standard Deviants School The Wild and Wacky World of Finance: Important Concepts

- I. Review of Stocks
 - A. Common stock
 - B. What stock prices are dependent upon?
 - 1. Market demands
 - 2. Company's success
 - C. Capital gain
 - D. Capital loss
 - E. Components of stocks
 - 1. Value of dividends
 - 2. Expected increase in stock's market value
 - F. Valuation of common stock
 - 1. Constant Growth Model
 - 2. Gordon Growth Model
 - 3. Growth cycles of stocks
 - a. Constant growth stocks
 - b. Supernormal growth stocks
 - c. Non-constant growth stocks
 - 4. Four steps for supernormal growth valuation
 - a. Find present value of dividends
 - b. Apply constant growth formula
 - c. Discount normal growth value
 - d. Discount supernormal dividends

- II. The Cost of Capital
 - A. Cost of the Weighted Average Cost of Capital (WACC)
 - B. Cost of capital
 - C. Capital components
 - 1. Common stock
 - 2. Preferred stock
 - 3. Bonds
 - 4. Retained earnings
 - D. Capital structure
 - E. Weighted Average Cost of Capital (WACC)
 - F. Capital Budgeting

- III. The Cost of Debt
 - A. Calculating WACC

B. After-tax cost of debt