

## **EVALUATION OF COST OF EQUITY AND COST OF CAPITAL BASED ON RISK ADJUSTED OF RETURN**

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### **ABSTRACT**

This paper presents an application of the financial theory to evaluate Cost of Equity and Cost of Capital; based on risk adjusted rates of return, oriented to small and medium enterprises for five economic sectors in Bolivia. The main objective of this work is to show the possible use of the CAPM (Capital Asset Pricing Model) as long as adjustments are made for its inclusion in different risk factors; suitable in developing economies without developed equity markets. On the other hand, using data on interest rates for SMEs in the financial system; I present an alternative approach known as Bond Yield plus Risk Premium. The results obtained with both models were very similar allowing making a Cost of Capital assessment for Bolivian SMEs, considering three scenarios of financial leverage.

**Keywords:** Cost of Capital, Cost of Debt, Cost of Equity, CAPM, Risk Premium.