

**CAPM/RISK PREMIUM METHOD CALCULATION**

CAPM /Risk Premium Method Equation:

$$R_f + \text{Beta}(R_m - R_{f_{Rm}}) = K_e$$

where:

$K_e$  = Cost of Equity

$R_{f_{Rm}}$  = Risk-Free Rate of Return  
(consistent w/ period for market return data)

$R_f$  = Risk-Free Rate of Return

Beta = Beta, used to measure level of risk<sup>1</sup>

$R_m$  = Expected Market Return  
( $R_m - R_{f_{Rm}}$ ) = market equity risk premium

	<u>R<sub>f</sub></u>	+	<u>Beta</u>	x	(	<u>R<sub>m</sub></u>	-	<u>R<sub>f<sub>Rm</sub></sub></u>	)	=	<u>K<sub>e</sub></u>
CCS (Regan) CAPM Calculation	3.47%		0.734		(	12.33%		3.73%	)		9.78%
Carbon/Emery Proposed											12.50%
Meredith "Reasonableness Check "	4.03%		0.734		(	19.90%		4.03%	)		15.67%

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<sup>1</sup>[http:// www.investopedia.com/terms/c/capm.asp](http://www.investopedia.com/terms/c/capm.asp), visited on November 3, 2005.