

Eighth Week Assignment

Explain each Cost & Benefit of debt

Cost of Debt :

- * Interest payments - It is an direct Cost of debt, reducing Cash flows
- * Default Risk - It increases with high debt levels, damaging Creditworthiness and limiting future borrowing
- * Reduced flexibility - High debt levels limit a Company's ability to respond to new Opportunities or challenges
- * Increased Risk - High debt to equity ratios increase bankruptcy risk negatively impacting stock prices

Benefits of Debt :

- * low Cost of Capital - Debt is often cheaper than equity, especially for Companies with stable cash flows

- * Tax Benefits - Interest payments are tax-deductible, reducing taxable income
- * Increased Leverage - Debt financing can amplify earnings potential
- * Risk Management - Damodaran explains how debt can hedge against business risks such as commodity price fluctuations

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