# Globalizing the cost of capital and capital budgeting

Globalizing the Cost of Capital and Capital Budgeting at AES (HBS Case# 204109-PDF-ENG) Obtain the Globalizing the Cost of Capital and Capital Budgeting at AES from Harvard Business Publishing. After individually reading the case, you are expected to have online group discussion sessions with your team members and to submit a group case analysis write-up after the case analysis task is assigned.

Please refer to the " Guidelines for Case Analysis" for the guidelines, writing requirements, grading and an example of case study analysis write-up. The case will also be discussed in class. You thus need to be well-prepared for in-class discussion. To help you with the analysis of this case, I provide here the main objectives and a list of suggested questions for you to discuss on when analyzing the case. Note that while these questions are helpful, your group report should not be written to answer these questions but to provide a full analysis of the case.

Objectives

This case can be used to help you explore the problem faced by managers who have to evaluate different types of projects across countries with different political and economic characteristics, evaluate the approach to capital budgeting used by a global firm, determine how the adjusted cost of capital derived from the new methodology affects the value of a particular project and assess the broader implications of using sovereign spreads and idiosyncratic risk factor to evaluate international projects.

Suggested Questions

1. How would you evaluate the capital budgeting method used historically by AES? What's good and bad about it? 2. If Venerus implements the suggested methodology, what would be the range of discount rates that AES would use around the world? 3. Does this make sense as a way to do capital budgeting? 4. What is the value of the Pakistan project using the cost of capital derived from the new methodology? If this project was located in the US, what would its value be? 5. How does the adjusted cost of capital for the Pakistan project reflect the probabilities of real events? What does the discount rate adjustment imply about expectations for the project because it is located in Pakistan and not the US?