

Cost of capital assignment

Business



Professor Paul Stevens Introduction – LaQuita “ Cost of capital is the required return necessary to make a capital budgeting project, such as building a new factory, worthwhile. Cost of debt and the cost of equity are included in the cost of capital. ” (“ Investopedia,” n. d.) A percentage that is often used to compute the net present value of the cash flow in a proposed investment is also the cost of capital.

One aspect that is often overlooked is the minimum after-tax internal rate of return that a new investment can earn also plays an intricate part in cost of capital. The different investment decisions that a company makes that could result in financial gain is considered its cost of capital. Bringing Pfizer Drugs to Market From Pfizer’s labs to local markets Pfizer’s drugs go through four steps and these processes can be extremely expensive ranging from hundreds of millions to close to a billion in operations cost.

The first of these steps is called the “ First in Human” step where the drugs once created are tested on healthy human subjects. The second step is where the drug is then tested on diseased populations and has no name. As with the second step, step three has no name. During step three the drug is tested on a very large patient population and against placebos and other competitors in the market. The data gleaned from these tests is passed to the FDA and once accepted, then goes to market under a patent-protected manner for a period of 8 to 10 years.

During this time further testing may be necessary. This is where phase four kicks in, when additional clinical studies are performed for various reasons but mainly to continue to monitor the acceptability of the drug when used by

large patient populations that now consume the product. Clinical testing is expensive and in order to bring a new drug to market it is essential to present it in a patent-protected manner so that the revenue it creates can be used to help fund the final process of the drugs creation.

If pharmaceutical companies were not able to bring their drugs to market protected in this fashion, then the companies would no longer exist because the cost would be too great.