

## 10.4: Estimating the Market Value Weights of the Financing Components

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The weights represent the market value weights of each of the components, not the book value. (Note: In many instances, the book value of debt can be a close approximation for the market value of debt. However, if we can estimate the market value we should always use it.) We first estimate the market value of debt, market value of preferred stock and market value of common stock by multiplying the number of shares (or bonds) times the value of each share (or bond). Then we sum up the value of each component. This represents the market value of the firm. The appropriate weight is the market value of that component divided by the market value of the firm. Market values are preferred because they are always current, taking into account investors' current outlook on our firm's prospects and risks and are the best measure of what the securities are worth.

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