

# Optimal Capital Budget

The optimal capital budget is the amount of invested capital at which the marginal cost of capital equals the marginal return from investing. The optimal capital budget is the amount of capital raised and invested at which the marginal cost of capital is equal to the marginal return from investing.

The optimal capital budget is an amount of investment that allows shareholder value to be maximized. The intersection point of the MCC curve and the IOS curve is the optimal capital budget.

- **Marginal cost of capital** is the weighted average cost of the last dollar of new capital raised by a company. It is the composite rate of return required by shareholders and debtholders for financing new investments of the company. The reinvestment of earnings comes without any increase in cost of equity.