

Abstract Alexander Baier

In practical applications it is often the case that a risk capital measure of some kind and a not necessarily linked cost of capital percentage are used to measure the risk cost of a company. This paper proposes an integrated approach of measuring risk and the associated cost. The model is developed from the simple practical example of a bond spread and then generalized. This leads to a class of risk measures which encompasses spectral risk measures and hence includes the popular measures Value at Risk and Tail Value at Risk and under certain conditions is coherent. The defining equations lead to a "natural" decomposition by sub portfolio under practical conditions. In an application section market data is used to parametrize the measure and evaluate the capital cost of an example company.