

NPV and Cash Transfers

- Producing projects require understanding the flow of cash.

Optimal timing I.

- Given projects with positive NPV may be more valuable if delayed.
- The relevant NPV is then the current value of future NPV rather than of the deferred project.

$$\text{Current NPV} = \text{NPV} \times \text{value of \$1 in } t \text{ years} = \frac{\text{NPV}}{(1+r)^t}$$

Investment Timing

- The value of an investment opportunity is the value of the option to invest in the future.
- The value of an investment opportunity is the value of the option to invest in the future.

What Do Discount II

- It is an opportunity cost measure.
- It is the value of the investment opportunity.
- It is the value of the investment opportunity.

What Do Discount I

Capital Budgeting

- NPV rule with Cash Flows

Net Present Value II

Net Present Value III

- NPV rule with Cash Flows

Project Interaction

- When projects are interdependent, the NPV of one project can be affected by the NPV of another project.

Net Present Value I

Capital Rationing

- Capital rationing occurs when the amount of capital available for investment is limited.

Profitability Index II

Risk Rate of Return

- Risk Rate of Return - An accounting measure of profitability. Also called accounting rate of return.
- Note the components reflect tax and accounting figures, not market values or cash flows.

Payback I.

- The payback period of a project is the time it takes before the cumulative financial cash inflow equals the initial outflow.
- The payback rule can only accept projects that "payback" within some set time horizon.
- This rule is criticized for many reasons.

Methods of CAPEX evaluation

Dr. Srijan Mishra

Profitability Index I.

- When investment costs are fixed, the profitability index (PI) provides a tool for ranking among investment opportunities.
- The highest ranked average PI are better than the rest in these circumstances.

Internal Rate of Return I.

- The Internal Rate of Return is the discount rate that makes the project's NPV = 0.
- IRR rule is to accept a project if the IRR is greater than the cost of capital.

Payoff r - Stronger cash flow patterns

- With some cash flows, the NPV of the project increases as the discount rate increases.
- This is contrary to the normal relationship.

Internal Rate of Return I.

- The Internal Rate of Return is the discount rate that makes the project's NPV = 0.
- IRR rule is to accept a project if the IRR is greater than the cost of capital.

Normal Rate of Return II.

- When investment costs are fixed, the normal rate of return (NRR) provides a tool for ranking among investment opportunities.
- The highest ranked average NRR are better than the rest in these circumstances.

Investment Decisions

Thecasesolutions.com

Thank you!

Dr. Srijan Mishra

Finish

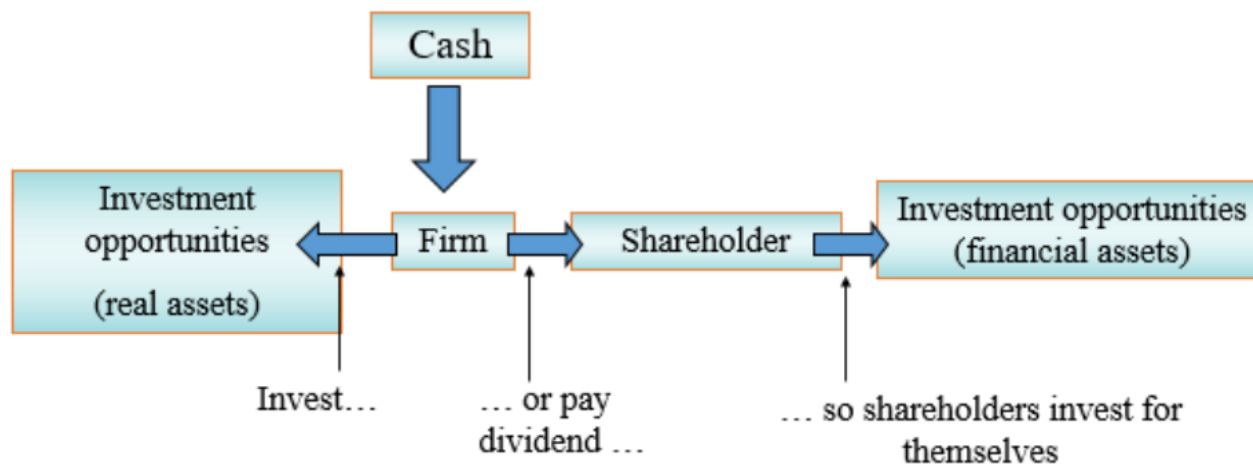
Capital expenditure decisions

Dr. Sági, Judit

Start

NPV and Cash Transfers

- *Evaluating projects requires understanding the flows of cash.*



What To Discount I.

Only Cash Flow is Relevant

