What do the following stand for?
- PV :
- FV :

1

Given some PV , a value for r (year period interest rate) and a number of years t, how would you calculate FV ?

2

How would you calcualte EAR (Effective annual rates)?

3

NPV ( ) is the difference between the market value of a project and its cost.

4

What is the equation to calculate the NPV?

5

What is Average Accounting Return (AAR) and how do you calculate it?

6

The is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost.

7

If two investments are , then taking one of them means that we cannot take the other.

8

What do the following stand for?
- PV: Present Value
- FV: Future Value

1

$$FV = PV(1 + r)^t$$

2

$$EAR = (1 + \frac{r}{m})^m - 1$$

- r is the quoted rate
- m is the number of compounding per year

are the equation's values.

3

NPV (Net Present Value) is the difference between the market value of a project and its cost.

4

$$NPV = -IO + \sum_{t=1}^{N} (\frac{CF_t}{(1+r)^t})$$

- IO is the initial investment.
- N & t are number of years and current year respectively.
- r is estimated required return.
- CF is cash flow.

Formula variables

5

$$AAR = \frac{AverageNetIncome}{AverageBookValue}$$

The average project earnings after taxes and depreciation, divided by the average book value of the investment during its life.

6

The Payback Period is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost.

7

If two investments are Mutually Exclusive, then taking one of them means that we cannot take the other.

8

What is a ***bond indenture****?*

The contract between company and the bondholders and includes:

- The basic terms of the bonds.
- The total amount of bonds issued.
- A description of property used as security, if applicable.
- Call provisions.
- Details of protective covenants.

Bond Indenture