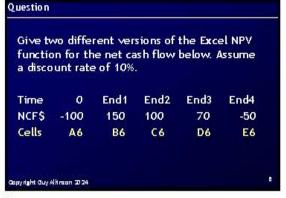
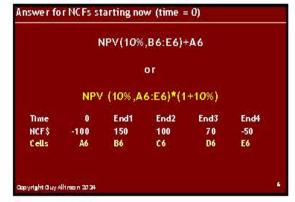


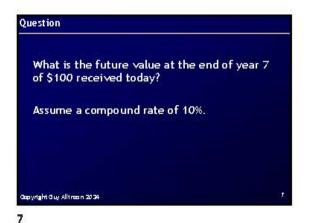
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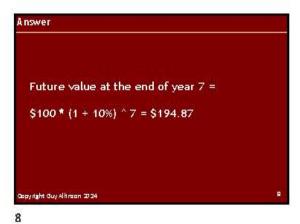
		NPV(10	%,A6:E6)	
Time	Endl	End2	End3	End4	End5
HCF\$	-100	150	100	70	-50
Cells	A6	B6	C6	D6	E6

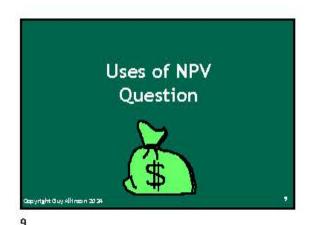




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1-81

Question
In what ways do we use NPVs in practice?

Фрунцинация अधिरक्षा २०२३

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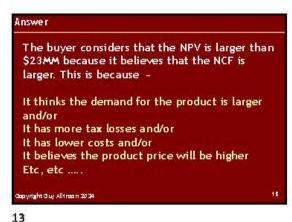
1. We use NPVs to make go-no go decisions.

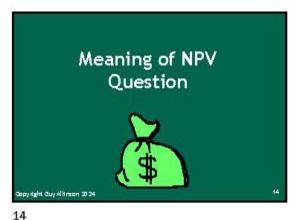
2. We use NPVs to value projects. It helps determine sale or purchase prices of investment projects.

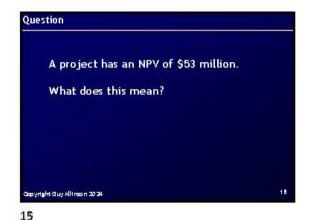
3. We can use Present Value or Future Value. They are different numbers, but give the same conclusions.

The NPV for the seller of a project is \$23MM. Why should a company considering buying the project pay this given that it is paying \$23MM to acquire a project that is worth \$23MM?

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It means that we would need to invest \$53 million extra in an alternative investment (for instance, the bank) to enable the alternative to deliver the same net cash flow as the project.

A decision maker asks you to use a 25% nominal discount rate for economic evaluations. He or she says "I want all my projects to earn at least a 25% return".

How should you respond?

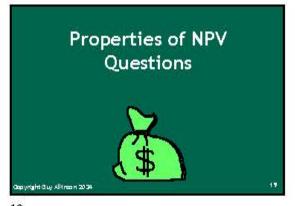
Answer

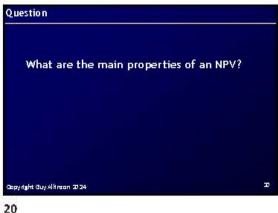
Ask - Where can you obtain a nominal return of 25% on alternative investments?

Say - There must be good evidence that we can obtain 25%, just like there must be good evidence for any input to an evaluation.

A discount rate is data. You can't just invent it because you want it.

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6. The discount rate is the return on your alternative investment.
7. If the alternative is the bank, the return is the deposit rate, not the loan rate.

Question

What is the difference between deflating a net cash flow and discounting a net cash flow?

Capyright Quy Altreon 2024

Deflating is getting purchasing power (how much we can buy with the net cash flow)

Discounting is getting NPV. In other words, comparing the project with an alternative investment.

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