

9.2 Net Present Value

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7:38 PM

i = discount rate start at time $t=0$
 T = end point

Payments are beginning of period

$$\sum_{t=0}^T B_t / (1+i)^t - \sum_{t=0}^T C_t / (1+i)^t = NPV = \sum_{t=0}^T (B_t - C_t) / (1+i)^t = \sum_{t=0}^T NB_t / (1+i)^t$$

δ = discount factor = $1/(1+i)$

$$0 < \delta < 1$$

T	B	C	NPV
0	0	20	-20
1	0	10	-10
2	10	5	5
3	40	5	35

Timing of Payments

$$\delta = 1/(1+i/12)$$