

Assignment - 6

1) Explain CAGR with Examples.

CAGR \rightarrow Compound Annual Growth Rate.

CAGR stand for Compound Annual Growth Rate. It is a way to measure how an investment or business has grow over a specific period of time. It takes into account the effect of compounding, which means that the growth builds upon itself.

Formula

$$CAGR = \left(\frac{FV}{PV} \right)^{1/n} - 1$$

* The Ending Balance is the value of investment at the end of the investment period.

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* N is the number of years you

have invested.

Examples:-

$$PV = 10,000$$

$$FV = 15,000$$

$$\text{Years} = 5$$

$$\begin{aligned} \text{CAGR} &= (15,000 / 10,000)^{(1/5)} - 1 \\ &= (1.5)^{(1/5)} - 1 \\ &= 0.08447 \text{ or } 8.45\% \end{aligned}$$

CAGR Calculator Need

* The CAGR Calculator is a simple online tool that gives you the annual rate at which your investment has grown.

* All you need to do is provide certain input data and the calculator the rest.

Use of CAGR

- ⇒ Performance Comparison.
- ⇒ Long-term Planning.
- ⇒ Risk Assessment.
- ⇒ Performance Evaluation.