



3.8 Investment appraisal

Terminology exercise

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

Spending on fixed assets is called
_____. It is sometimes
referred to as
expenditure. To choose the appropriate
investment, a business conducts an
investment _____, which
includes different quantitative methods.

The first quantitative method involves
calculating the time period over which
the investment will pay for itself. This
time period is called the
_____ and this is the
simplest method of appraisal. However,
it ignores the quality of the investment
and the long-run return.

The second quantitative method
involves calculating a rate of return on
investment and is called the average
_____.

Finally, the third quantitative method
discounts future cash flows and
compares them with the investment. It is
referred to as the
_____ value.

investment

appraisal

capital

net present

payback period

rate of return

✔ Check

