TIME VALUE OF MONEY

Compound Interest: **$(1+i)^n$** where "i" is the periodic **Interest Rate** and "n" is the number of periods that are **Compounded**.

Compounding: Approach to taking a **Present Value** to a **Future Value**:

Future Value (FV) = Present Value x $(1+i)^n$

Discounting: Approach to taking a **Future Value** back to **Present Value**:

Present Value (PV) = Future Value ÷ $(1+i)^n$

Annuities (PMT): **Investments** with constant future **Periodic Payments**.

Interest Rate (i), Effective Yield, Internal Rate of Return (IRR): Various measures of the **Return on Capital** or the **Cost of Capital**.

***Net Present Value (NPV)*:** The **Present Value** of all **Projected Future Cash Flows** discounted at a specified **Discount Rate**, less the cost of the **Investment**.

***Internal Rate of Return (IRR)*:** The calculated **Discount Rate** at which the **Present Value** of all **Projected Future Cash Flows** is equal to the cost of the **Investment**.

Risk: Is essential to evaluate in order to determine whether the expected **Investment Return** is sufficient in light of the perceived **Risk**.

n	i	PV	PMT	FV