

HOW TO SPEND MONEY (CAPITAL BUDGETING TOOLS)

Using all the metrics together

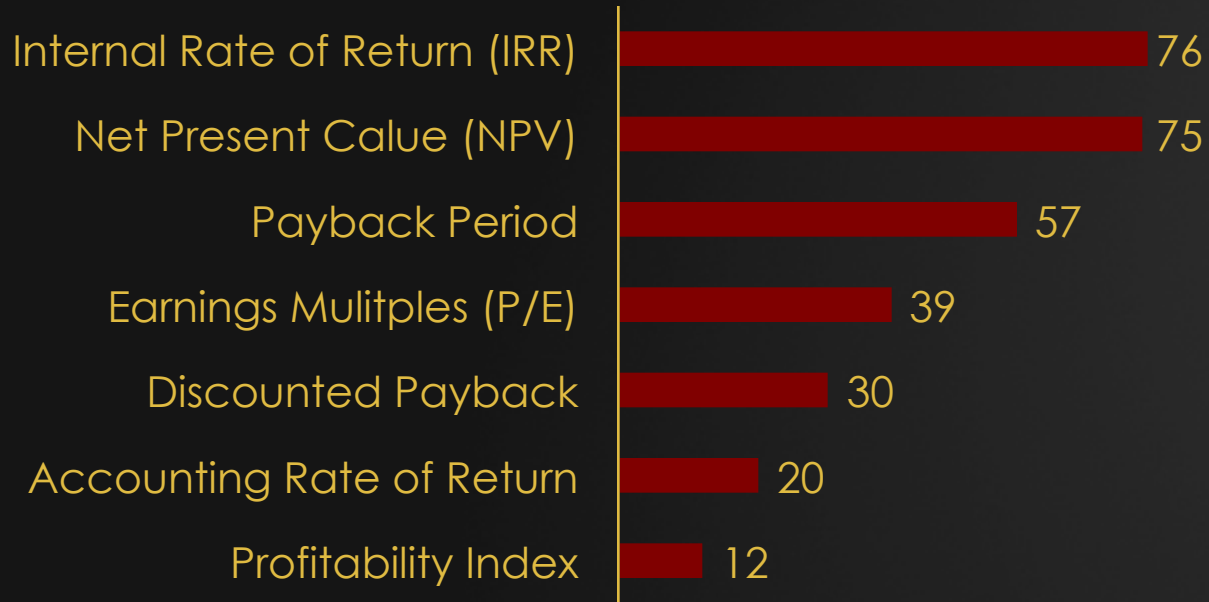
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PUTTING ALL THE METRICS TOGETHER

Most CFOs rely on multiple metrics



Source: John Graham and Campbell Harvey, 2001

PUTTING ALL THE METRICS TOGETHER

- ▶ NPV always first best approach
- ▶ IRR puts NPV in perspective
- ▶ Payback can be useful
- ▶ Ratios are informative and easy
- ▶ There should be a consistent theme