PRODUCT MANAGEMENT

Net Present Value (NPV)

Net Present Value (NPV) is the difference between value of the total benefits (income or revenue) and the costs over a period. Present values of different items combined gives the NPV.

Problem statement:

Project X will take 2 years to complete and has an NPV of $35,000. Project Y will take 5 years to complete and has an NPV of $95,000. Which project would you select?

Solution:

Project Y, because it has a higher NPV

Note: The project with the higher NPV is better

Internal Rate of Return (IRR)

Internal Rate of Return (IRR) is the rate of discounting (used to reduce future cash flows to their present value) at which the present value of costs matches the present value of benefits. In other words, it is the rate of return internal to the project.

Problem statement:

Project A has an IRR of 25% and project B has an IRR of 15%. which project would you choose?

Solution:

Project A, because it has a higher IRR

Note: The project with the higher IRR is better.

Questions on NPV and IRR can be expected in the exam.