3 - Time Value of Money - ch. 3

course	MGMT 170
area	ucla
created	@April 5, 2023 10:07 AM
updated	@June 15, 2023 10:07 AM
✅ tasks	
📕 courses	🏠 MGMT 170: Real Estate Finance
URL	
tags	

Definitions

- Interest Rate (i), effective yield, and IRR (internal rate of return)
  - aa measure of the ROC (Return on capital) or Cost of Capital

Big Ideas

Compound Interest

- $(1+i)^n$
- i is the periodic interest rate; n is the number of periods compunded

Compounding (PV)

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/41812573-c0ee-4f15-95ea-975ebbeef490/TIME_VALUE_OF_MONEY_-_Chapter_3.pdf

- Getting FV from PV

$$\mathrm{FV} = \mathrm{PV} \cdot (1+i)^n$$

Discounting (FV)

- Getting PV from FV

$$\mathrm{PV} = \mathrm{FV} \div (1+i)^n$$

Annuities (PMT)

- Investments with constant future periodic payments

Investment Metrics: NPV, IRR, Risk

Net Present Value (NPV)

- Present value of all projected future cash flows discounted at a Discount Rate:
- MINUS/LESS the cost of investment

Internal Rate of Return (IRR)

- Discount rate at which:
- PV of all projected future cash flows = cost of investment

Risk

- a metric to determine whether expected return is worth the cost of capital in the perceived risk

📌 **SUMMARY**