Finance (Basic)

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Time Value of Money

Why is a dollar tomorrow less worth than a dollar today?

- Opportunity costs
- Purchasing power of money

Future Value

Is a value of an asset in a specific day in the future.

Present Value

$$PV = df \times CF$$

Discount Factor

DF is the value today of $1 received in the future.

Net Present Value

NPV = PV – PV of Required investment

Cumulative Net Present Value

$$\text{NPV} = \sum_{t=1}^{T} \frac{CFt}{(1+i)\hat{}t} - \text{CF}_0$$

Note: mostly < 0, investment.

Present Value of Perpetuity

$$PVoP = \frac{CF}{i}$$

Risk and Present Value

A safe dollar is worth more than a risky one.

Thank you for your attention