

Capital budgeting.

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classmate

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→ If cash flows are money flows →
then find money cost of capital by using inflation rate.

$$\text{Money cost of capital} = (1+r) \times (1+i) - 1$$

↓
Nominal / real rate

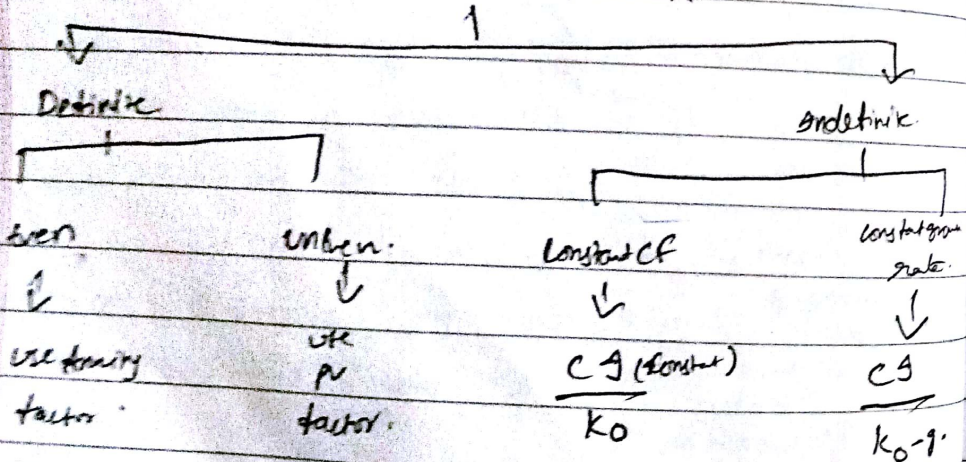
→ If inflation and ~~money~~ ^{money} rate are given then for finding Real rate.

$$\text{Real rate} = \left(\frac{1 + \text{money rate}}{1 + \text{inflation rate}} \right) - 1$$

→ If real rate and money rate are given then for finding inflation rate

$$\text{inflation rate} = \left(\frac{1 + \text{money rate}}{1 + \text{Real rate}} \right) - 1$$

→ cash inflows — period.



$$\rightarrow GRR = \text{Lowest rate} + \frac{\text{NPV at highest rate} - \text{Cash outflow}}{\text{NPV at highest rate} - \text{NPV at lowest rate}} \times \text{Diff in rates}$$

$$\rightarrow \text{cash inflow at zero date from equity share holder} = \frac{\text{cash inflow available for equity shareholder}}{(1+r)^0}$$

$$\rightarrow \text{Standard deviation}$$

$$= \sqrt{\frac{\sigma^2}{(1+r)^{2t}}} \quad t = 1, 2, 3$$

$$\rightarrow \text{profitability index} = \frac{\text{Discount Cash inflow} \geq \frac{E \cdot NPV + 50}{50}}{\text{initial outlay.}}$$

$$\rightarrow \text{coefficient of variation} = \frac{\sigma \cdot D}{E \cdot NPV}$$

$$\rightarrow \text{Sales value} = \frac{\text{Annual cash flow} \times \text{fixed cost.}}{\text{Plv ratio.}}$$

* $\rightarrow$ Higher the riskiness of a cash flow, the lower will be the certainty equivalent factor.