Capital budgeting.

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

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

(r: Nominal/real rate; i: inflation rate)

→ If inflation and 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.

- Definite
  - even → use annuity factor.
  - uneven → use PV factor.
- Indefinite
  - Constant CF → $\frac{CF \text{ (constant)}}{K_o}$
  - Constant growth rate → $\frac{CF}{K_o - g}$

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→ IRR = Lowest rate + $\frac{\text{NPV at lowest rate} - \text{Cash outflow}}{\text{NPV at lowest rate} - \text{NPV at lowest rate}}$ × Diff in rates

→ cash inflow at zero date from equity shareholder
= $\frac{\text{Cash inflow available for equity shareholder}}{(1+r)_n}$

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

→ profitability index = $\frac{\text{Discount Cash inflow}}{\text{initial outlay.}}$ 2) $\frac{\text{NPV} + 90}{90}$.

→ coefficient of variation = $\frac{S.D}{E.NPV}$

→ Sales value = $\frac{\text{Annual cashflow fix cost.}}{\text{P/V ratio.}}$

* → Higher the riskiness of a cashflow, the lower will be the certainty Equivalent factor.