

4 Lecture - MGT201

Important Subjective

- 1. What is the time value of money?**
Answer: The time value of money is the idea that money received or paid out at different times has different values due to the potential earning power of money over time.
- 2. What is present value?**
Answer: Present value is the current value of future cash flows, calculated using a discount rate.
- 3. What is future value?**
Answer: Future value is the value of an investment at a specific point in time in the future, calculated using an expected rate of return.
- 4. What is an annuity?**
Answer: An annuity is a series of equal payments made at regular intervals.
- 5. What is compounding?**
Answer: Compounding is the process of earning interest on interest.
- 6. What is discounting?**
Answer: Discounting is the process of calculating the present value of future cash flows.
- 7. What is the formula for calculating future value?**
Answer: $FV = PV \times (1 + r)^n$, where FV is the future value, PV is the present value, r is the expected rate of return, and n is the number of years.
- 8. What is the formula for calculating present value?**
Answer: $PV = FV / (1 + r)^n$, where PV is the present value, FV is the future value, r is the discount rate, and n is the number of years.
- 9. What is the time period used in time value of money calculations?**
Answer: The time period used in time value of money calculations is usually in years.
- 10. Why is time value of money important in finance?**
Answer: Time value of money is important in finance because it allows for the comparison of cash flows over time, and helps in making investment decisions based on the value of money at different points in time.