## 6 Lecture - MGT201

## **Important Subjective**

## 1. What is present value?

Answer: Present value is the current worth of a future sum of money, discounted at a specific rate of return.

## 2. What is discounting?

Answer: Discounting is the process of determining the present value of a future sum of money by applying a discount rate.

- 3. How is the present value of a future sum of money affected by the discount rate? Answer: The present value of a future sum of money decreases as the discount rate increases.
- 4. What is the formula for calculating present value? Answer: Present Value = Future Value / (1 + Discount Rate)^n, where n is the number of periods.
- 5. Why is present value important in finance?

Answer: Present value is important in finance because it allows us to compare the value of cash flows that occur at different points in time.

- 6. **How does inflation affect the present value of money?** Answer: Inflation decreases the purchasing power of money, which means that the present value of a future sum of money is reduced.
- 7. What is the relationship between the discount rate and the risk associated with an investment?

Answer: The higher the risk associated with an investment, the higher the discount rate used to calculate its present value.

8. How do interest rates affect present value?

Answer: Higher interest rates increase the discount rate, which reduces the present value of a future sum of money.

9. How does compounding affect present value?

Answer: Compounding increases the future value of an investment, which in turn increases its present value.

10. What is the difference between simple interest and compound interest when it comes to present value?

Answer: Simple interest assumes that interest is only earned on the principal amount, while compound interest assumes that interest is earned on both the principal and any accumulated interest. As a result, compound interest typically results in a higher present value than simple interest.