

# 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:  $\text{Present Value} = \text{Future Value} / (1 + \text{Discount Rate})^n$ , 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.