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.