

# 7 Lecture - MGT201

## Important Subjective

- 1. What is the purpose of Discounted Cash Flow (DCF) analysis?**  
Answer: The purpose of DCF analysis is to estimate the present value of an investment's future cash flows.
- 2. What is the difference between an annuity and a perpetuity?**  
Answer: An annuity has a finite number of equal payments made at regular intervals, while a perpetuity has an infinite series of equal payments.
- 3. What is the formula for calculating the present value of an annuity?**  
Answer:  $PV = PMT * (1 - (1+r)^{-n}) / r$ , where PV is the present value, PMT is the payment amount, r is the discount rate, and n is the number of payments.
- 4. What is the formula for calculating the present value of a perpetuity?**  
Answer:  $PV = PMT / r$ , where PV is the present value, PMT is the payment amount, and r is the discount rate.
- 5. How does the discount rate affect the present value of an investment?**  
Answer: The higher the discount rate, the lower the present value of an investment's future cash flows.
- 6. What is the difference between simple interest and compound interest?**  
Answer: Simple interest is calculated only on the principal amount, while compound interest is calculated on both the principal and any accrued interest.
- 7. What is the time value of money?**  
Answer: The time value of money is the concept that money is worth more today than the same amount of money in the future due to its potential earning capacity.
- 8. How does the length of time affect the present value of an investment?**  
Answer: The longer the time until the investment's cash flows are received, the lower the present value of those cash flows.
- 9. What is the difference between a fixed annuity and a variable annuity?**  
Answer: A fixed annuity provides a guaranteed fixed rate of return, while a variable annuity's rate of return is based on the performance of underlying investments.
- 10. What are the limitations of using DCF analysis to value an investment?**  
Answer: The limitations of DCF analysis include the accuracy of cash flow projections, the choice of discount rate, and the uncertainty of future events that may affect cash flows.