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.