

## Summary of Material for Midterm 2

### **Time Value of Money (chapter 5)**

- **PV, FV, r, n**
- **PVIF, FVIF**
- **Simple versus compound interest**

### **Discount Cash Flow (chapter 6)**

- **Dealing with multiple cash flows.**
- **Perpetuity**
- **Annuity**
- **Annuity due**
- **Growing perpetuity**
- **Growing annuity**
- **EAR vs. APR**
- **Different types of loans**
  - **Pure discount**
  - **Interest only loan**
  - **Equal principal**
  - **Mortgage – equal payment**

### **Interest Rates and Bond Valuation (Chapter 7)**

- **Bond valuation – coupon, face value, YTM, coupon yield**
- **The indenture**
- **Interest rate risk**
- **The Fisher Effect**
- **The term structure and the determinants of bond yields.**

### **Stock Valuation (chapter 8)**

- **Zero growth, constant growth, changing growth**
- **Dividend yield, capital gain**
- **Required return**

- **Preferred shares**

### **Capital Budgeting 1 (Chapter 9)**

- **NPV**
- **IRR**
- **Payback and discounted payback**
- **Problems with each of the rules compared to NPV**
- **Profitability index**

### **Capital Budgeting 2 (Chapter 10)**

- **Sunk costs**
- **Opportunity costs**
- **Side effects**
- **Inflation**
- **Incremental cash flow**
- **Cash flow from asset (NWC, capital spending, OCF)**
- **The tax shield approach formula**
- **Straight line depreciation vs. declining balance**
- **EAC**
- **Mutually exclusive projects**