SECTION – 4

QUESTION-2.

ANSWER:-

Finance:-

Finance is a broad term that describes activities associated with banking, leverage or debt, credit, capital markets, money, and investments. Basically, finance represents money management and the process of acquiring needed funds. Finance also encompasses the oversight, creation, and study of money, banking, credit, investments, assets, and liabilities that make up financial systems.

Personal Finance

Financial planning involves analyzing the current financial position of individuals to formulate strategies for future needs within financial constraints. Personal finance is specific to every individual's situation and activity; therefore, financial strategies depend largely on the person's earnings, living requirements, goals, and desires.

Corporate Finance

Corporate finance refers to the financial activities related to running a corporation, usually with a division or department set up to oversee the financial activities.

Public Finance

Public finance includes tax, spending, budgeting, and debt issuance policies that affect how a government pays for the services it provides to the public.

Net Present Value Method

Under the net present value (NPV) method, you examine all the cash flows, both positive (revenue) and negative (costs), of pursuing a project, now and in the future. You then adjust, or "discount," the value of future cash flows to reflect what they're worth in the present day.

NPV makes this adjustment using a "discount rate" that takes into account inflation, the risk of the project and the cost of capital – either interest paid on borrowed money or interest not earned on money spent to pursue the project. Finally, it adds up the present values of all the positive and negative cash flows to arrive at the net present value, or NPV. If the NPV is positive, the project is worth pursuing; if it's negative, the project should be rejected. When deciding between projects, choose the one with the higher NPV.

Payback Period Method

Under the payback period method, estimate how much it will cost your business to launch the project and how much money it will generate once it's up and running. Then calculate how long it will take the project to "break even," or generate enough money to cover the startup costs. Companies using the payback period method typically choose a time horizon – for example, 2, 5 or 10 years. If a project can "pay back" the startup costs within that time horizon, it's worth doing; if it can't, the project will be rejected. When deciding between projects, choose the one with the shorter payback period.