Victoria University of Bangladesh

Mid Term Assessment, Summer Semester 2023

Name: Shahinur Rahman Kawsar

ID : 1119460111

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Course Title: Introduction to Finance

Course code : FIN-322

Program : BBA

FIN-322

Ans. to the Q: NO: 2

The time value of money (TVM) is the concept that a sum of money is worth more now than the same sum will be at a future date due to its earnings potential in the interim. The time value of money is a core principle of finance. A sum of money in the hand has greater value than the same sum to be paid in the future.

1) The time value of money means that a sum of money is worth more now than the same sum of money in the future.

2) The principle of the time value of money means that it can grow only through investing so a delayed investment is a lost opportunity.

(3) The formula for computing the time value of money considers the amount of money, its future value, the amount it can earn, and the time frame.

(4) For savings accounts the number of compounding periods is an important determinant as well.

(5) Inflation has a negative impact on the time value of money because your purchasing power decreases as prices rise.

The key types of the time value of money include simple interest, compound interest, present value, future value, discount rates, opportunity cost and inflation. Learning and accounting for these factors helps firms maximize the value of their

Financial resources over time.

- Discuss the role of time value in finance, the use of computational tools, and basic Patterns of cash flow.
- Understand the concepts of future value and present value, their calculation for single amounts, and the relationship between them.
- Calculate both the future value and present value of an annuity and a mixed stream of cash flows.
- Understand the effect that compounding interest more frequently that annually has on future value and the effective annual rate of interest.

Ans: to: the: Q. NO: 4

Risk is the situation under which the decision outcome and their probabilities of occurrences are known to the decision maker, and uncertainty is the situation under which such information is not available to the decision-maker. Research on decision-making under risk and uncertainty has two broad streams normative and descriptive. Normative research models how decision should be made under risk and uncertainty whereas descriptive research studies how decisions under risk and uncertainty are actually made. Descriptive studies have exposed weaknesses of some normative models in describing people's judgment and decision making and have complled the creation of more intricate models that better reflect people decision under risk and uncertainty.

Differentiate Risk and Uncertainty:

BASIS FOR COMPARISON	RISK	UNCERTAINTY
Meaning	The probability of winning or losing something worthy is known as risk.	Uncertainty implies a situation where the future events are not known.
Ascertainment	It can be measured	It cannot be measured.
Outcome	Chances of outcomes are known.	The outcome is unknown.
Control	Controllable	Uncontrollable
Minimization	Yes	No
Probabilites	Assigned	Not assigned

In the ordinary sense the risk is the outcome of an action taken or not taken in a particular situation which may result in loss or gain. It is termed as a chance or loss or exposure to danger arising out of internal or external factors that can be minimised through preventive measures.