ENGINEERING ECONOMY

Definition of Terms

1. An asset's estimated residual value at the end of its useful or economic life is known as **Salvage Value.**

2. **Internal Rate of Return (IRR)** is the discount rate at which future cash inflows and outflows are equal in value. It is the interest rate at which an investment will break even.

3. A method of financial analysis that pinpoints the point at which all expenses and all revenues are equal and there is no profit or loss is known as **Break-Even Analysis.**

4. A technique for valuing an investment or project that involves determining the present value of anticipated future cash flows is called **Discounted Cash Flow (DCF)**

5. The process of estimating an investment's future value by adding interest to both the initial principal and any accumulated interest is known as **Compounding**.

6. **Sensitivity Analysis** is a method for determining how various inputs or assumptions will affect an economic model's output or result.

7. The nominal interest rate that has been inflation-adjusted to account for the value of money is called **Real Interest Rate.**

8. **Operating Expenditure (OPEX)** are the constant costs incurred in carrying out a project or business daily, such as salaries, utilities, and upkeep.

9. Money flowing into or out of a project or investment over a predetermined period is known as **Cash Flow.**

10. Money today is worth more than the same amount in the future due to its potential earning power and the effects of inflation, according to the **Time Value of Money (TVM)** theory.

11. **Future Value (FV)** is defined as the value of an investment or cash flow considering compound interest at a specific future time.

12. The interest rate used to translate future cash flows into their present value equivalent is known as the **Discount Rate**.

13. **Depreciation** is the decrease in an asset's value over time as a result of damage, obsolescence, or other factors.

14. The difference between the present value of cash inflows and outflows over the course of an investment project is known as **Net Present Value (NPV).** It stands for how profitable an investment was.

15. The **Weighted Average** of the cost of debt and equity used to finance an investment serves as a benchmark for the minimum return a potential investment must provide.