

→ Continuation

5 External Rate of Return Method E.R.R

$$N.F.W = \text{Zero}$$

M.A.R.R

$$-P(F/P, e^*, N) + (R-D)(F/A, i, N) + F = 0$$

If $e^* > M.A.R.R \rightarrow$ accepted

6 The Explicit Reinvestment Rate of Return

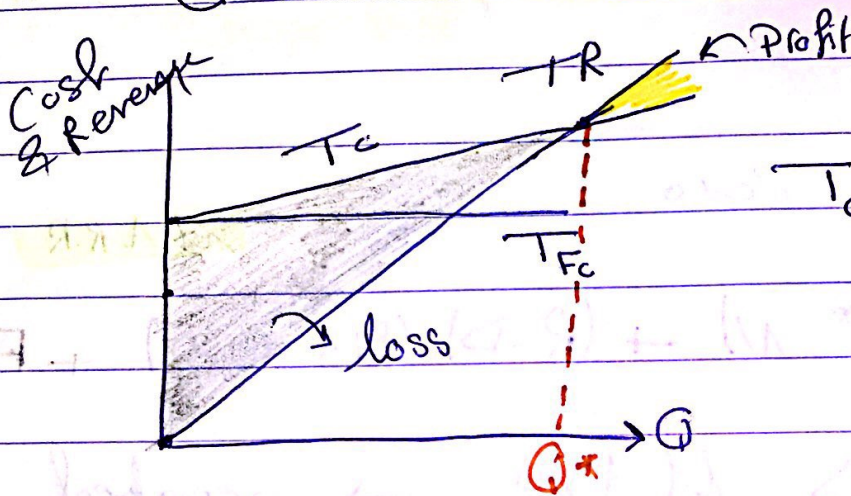
$$E.R.R.R = \frac{\text{Net profit}}{\text{investment}}$$

$$= \frac{(R-D) \cdot F}{P} (A/F, i, N)$$

If $E.R.R.R > M.A.R.R \rightarrow$ accepted

→ Break even Point & sensitivity

Q^* at which $P \cdot Q = T_{Fc} + T_{Vc}$



Remember
 $T_c - T_{Fc} = T_{Vc}$

To find it :-

In terms of physical Quantity
 $Q = \frac{F_c}{P - V}$ → Fixed Costs

P → selling price / unit
 V → A. variable cost (AVC) / unit

In terms of Production Capacity

$$Q = \frac{F_c}{P - AVC}$$

(full productive capacity) (Price) = $\frac{\text{capacity}}{AVC (\text{full productive capacity})}$

In terms of sales value

$$Q = \frac{P(F_c)}{P - V}$$

To find minimum Price of item

$$P^* = \frac{F_c + TVC}{Q \text{ (full productive capacity)}}$$

Price Safety Margin = $\frac{P - P_x}{P}$

To find profit

selling price

$$P = \frac{P - V}{Q} - F_c$$

$$P = -F_c + P \cdot Q - TVC$$

$$P = P \cdot Q - F_c - TVC$$