Corporate Finance

University Business · Vocabulary in context

Word	Example
corporate finance	**Corporate finance** decides which projects to fund and how.
compounding	**Compounding** shows how money grows with interest over time.
discounting /ˈdɪskaʊntɪŋ/	**Discounting** works out what future money is worth today.
annuity /əˈnjuːɪti/	An **annuity** pays the same amount every year for a set time.
perpetuity	A **perpetuity** pays the same amount every year for ever.
incremental cash flow	An **incremental cash flow** is extra cash that comes only because of the project.
sunk cost /sʌŋk kɒst/	Money spent on advertising is a **sunk cost**: you cannot get it back.
net present value /net ˈprezənt ˈvæljuː/	**Net present value** adds up future cash in today's money, minus the cost.
internal rate of return	The **internal rate of return** is the rate at which NPV is zero. NPV
hurdle rate	A project must beat the **hurdle rate** to be accepted.
expected return	The **expected return** is the average return across all scenarios.

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volatility /ˌvɒləˈtɪlɪti/	High **volatility** means the returns jump up and down a lot.
diversification /daɪˌvɜːsɪfɪˈkeɪʃn/	Selling several export products improves **diversification**.
weighted average cost of capital	The **weighted average cost of capital** is the average cost of the firm's money.
tax shield	The **tax shield** makes debt cheaper because interest reduces tax.
cash conversion cycle	The **cash conversion cycle** is how long cash is tied up in stock.
opportunity cost /ɒpəˈtjuːnɪti kɒst/	The **opportunity cost** of a holiday is what else you could have bought.
risk premium	The **risk premium** is the extra return for taking more risk.
systematic risk	**Systematic risk**, such as a recession, affects all firms.
specific risk	**Specific risk** affects only one firm and can be spread out.

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