



Examines NPV, IRR etc. to changes in the main variables of a project --> scenarios

Sensitivity analysis

Variation on cash flow

Adjust cost of capital

Beta = Takes into account degree of volatility of a stock vs. market

Downside risk

In General: Variability of returns



What is risk?

Upside risk



Rule of thumb: Person, Organisation or group most able to handle and manage a risk is the one who should manage it



Inflation

Is it general inflation or differential inflation?

if price change includes inflation then discount rate should be nominal cost of capital --> Cost of capital contains "level of inflation"

if cash flow is calculated at constant prices, make sure you take a discount factor = cost of capital less an estimate of the inflation



Taxation

use external tax specialist as each country has its specialties

Issues in investment appraisal

Risk