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- If Θ is calculated to include some fraction of a year, it is rounded to the next highest year

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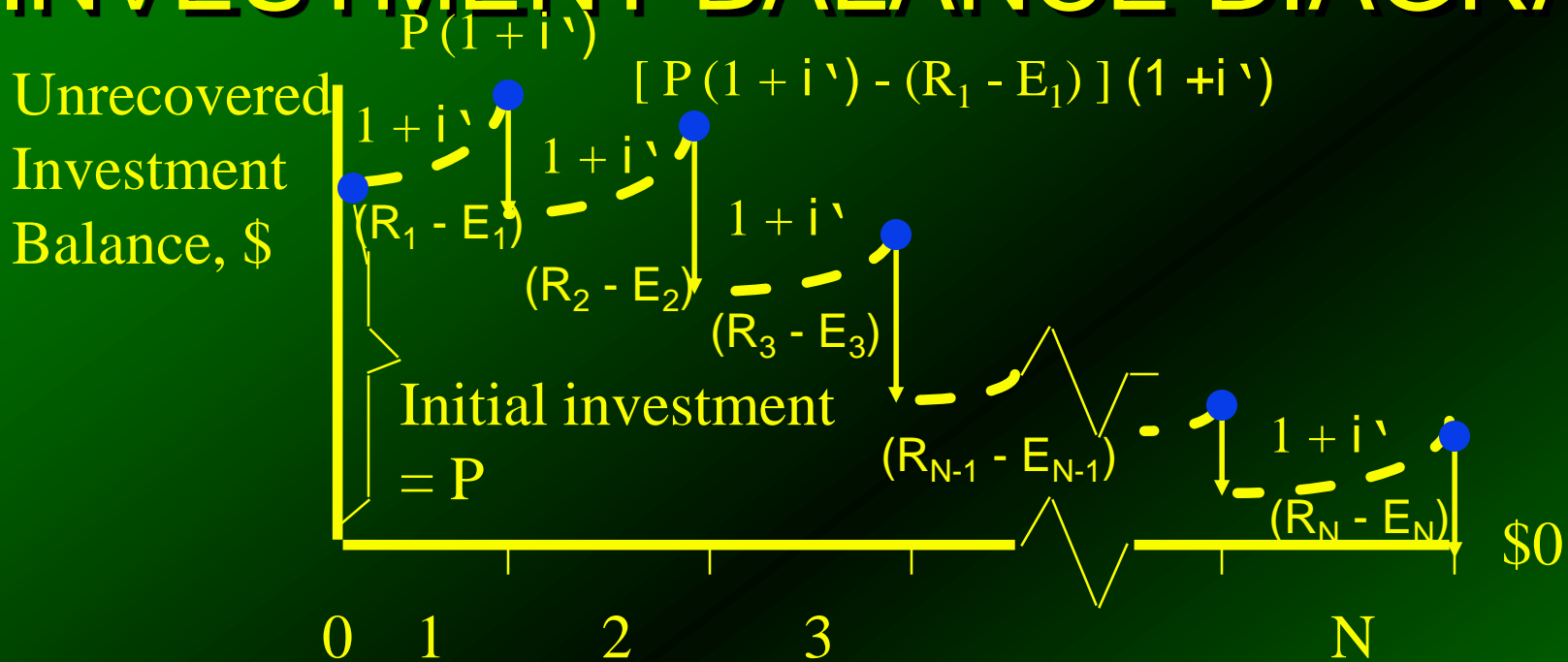
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Θ' is the smallest value that satisfies the equation

INVESTMENT-BALANCE DIAGRAM

Describes how much money is tied up in a project and how the recovery of funds behaves over its estimated life.

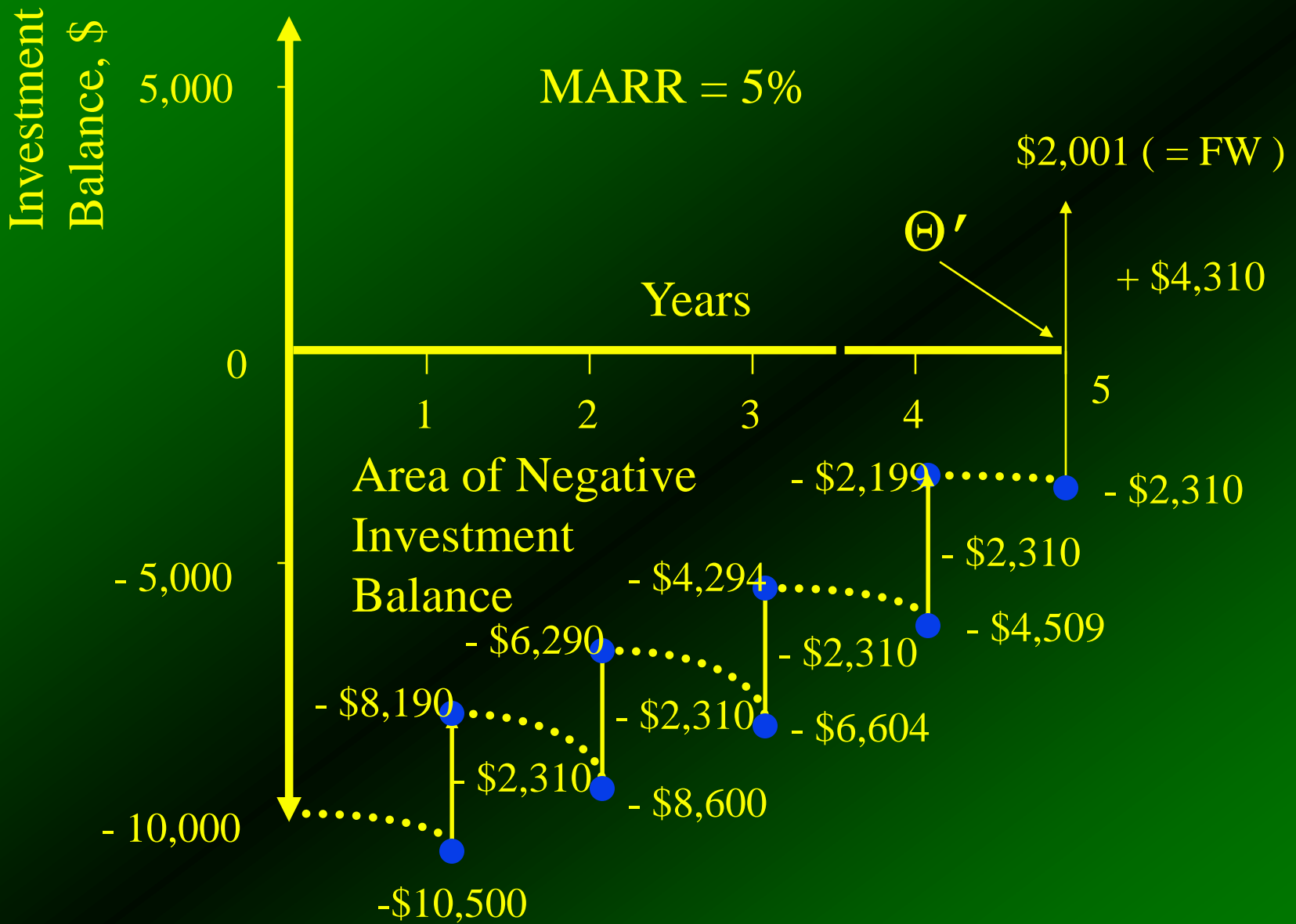
INTERPRETING IRR USING INVESTMENT-BALANCE DIAGRAM



- downward arrows represent annual returns $(R_k - E_k) : 1 \leq k \leq N$
- dashed lines represent opportunity cost of interest, or interest on BOY investment balance
- IRR is value i^* that causes unrecovered investment balance to equal 0 at the end of the investment period.

INVESTMENT-BALANCE DIAGRAM EXAMPLE

- Capital Investment (I) = \$10,000
- Uniform annual revenue = \$5,310
- Annual expenses = \$3,000
- Salvage value = \$2,000
- MARR = 5% per year



WHAT INVESTMENT-BALANCE DIAGRAM PROVIDES

- Discounted payback period (Θ^*) is 5 years
- FW is \$2,001
- Investment has negative investment balance until the fifth year

Investment-balance diagram provides additional insight into worthiness of proposed capital investment opportunity and helps communicate important economic information