

## **The Fundamentals of Investment Appraisal** **How to Make Sound Investment Decisions - Based on a Case Study**

Investment appraisal is a subject which all students of economics or business are confronted with. Professional investment decisions are the basis for future success in a business environment. For a better understanding, a **case study** is constructed to illustrate all methods discussed. This case study focuses on the reality of student life as well as of practitioners: the founding of a car sharing enterprise.

The goal of the course is to pace a sure way through the variety of investment appraisal methods. It is shown why there are different methods in investment appraisal and on where to focus in a given situation. As all methods are introduced through the same case study, it is easy to compare and evaluate the results. The contents are further consolidated by abstracts and evaluations of the respective methods as well as by exercises with extensive solutions. This will give the students the confidence which is necessary for an ease of handling the investment appraisal techniques.

A **textbook** with lecture notes in English is available: Röhrich, Martina, Fundamentals of Investment Appraisal, München 2007. It covers all the material for the study course and exercises with extensive solutions. For those who want to enhance their German there is also a German version: Röhrich, Martina, Grundlagen der Investitionsrechnung: Eine Darstellung anhand einer Fallstudie, München 2007. In both textbooks the pages are constructed identically. Using both textbooks simultaneously will help those students who still lack the necessary business vocabulary in the respective language to reasonably follow a class in English or German.



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Extractions from the textbook

English version, pp. 1-2

During a break between two classes a group of students have the idea to found a car sharing company. In so doing they aim to supplement their income and moreover to improve their quality of life. In order to help them transact business someone makes a used laptop and a printer at the amount of € 1,000 available to the group of students. Furthermore the students bring in € 20,000 that a bank lends them at a rate of 5 % interest on the merits of their undertaking. In this case study, the selection of the interest rate is expressly not geared to the reality, but is selected so that results can be easily and understandably recalculated.

The most urgent initial task to run the business is the purchase of an appropriate vehicle. Since the students can't be certain of the success of their business a rather inexpensive vehicle should be bought, because it could be resold easily in case of need. After a pre-selection there are two vehicles short-listed: The model AK Rasant of Archimedes Kunz Company and the model SM Samurai of Sayonara Motors Corporation. We perform a comparison of alternatives. That is, we look at the average total cost per year, due to the fact that planned driving performance is equal for both vehicles.

German version, pp. 1-2

In einer Pause zwischen zwei Vorlesungen kommt eine Gruppe von Studierenden auf die Idee, ein Car-Sharing-Unternehmen zu gründen. Auf diese Weise glaubt man, die eigene Kasse aufbessern zu können und außerdem das Leben für die Kommilitonen angenehmer zu gestalten. Jemand stellt für die Abwicklung des Geschäftsbetriebes ein gebrauchtes Notebook mit einem Drucker im Wert von 1.000 € zur Verfügung. Außerdem bringen die Studierenden ein Kapital von 20.000 € ein, das ihnen eine Bank wegen der guten Geschäftsidee zu 5 % Zinsen geliehen hat. Die Wahl des Zinssatzes orientiert sich in diesem Fallbeispiel ausdrücklich nicht an der Realität, sondern er soll so gewählt sein, dass sich die Ergebnisse leicht rechnen und nachvollziehen lassen.

Die vordringlichste Aufgabe für die Aufnahme des Geschäftsbetriebes ist jedoch die Anschaffung eines geeigneten Fahrzeuges. Da man sich nicht sicher ist, ob das Geschäft gut oder eher schlecht laufen wird, soll ein preiswertes Fahrzeug angeschafft werden, das man notfalls auch leicht wieder verkaufen könnte. Nach einer Vorselektion stehen ein AK Rasant der Archimedes Kunz Aktiengesellschaft und ein SM Samurai der Sayonara Motors Corporation in der engeren Auswahl. Es wird ein Alternativenvergleich durchgeführt, bei dem die durchschnittlichen Gesamtkosten pro Jahr betrachtet werden, da die geplante Fahrleistung für beide Fahrzeuge gleich groß ist.