

Evaluating capital investment projects

[Finance](#)



Evaluating Capital Investment projects Evaluating Capital Investment projects for Arizona Hospital

Finance managers of Arizona hospital may go about selecting the metrics to evaluate whether an investments project will be profitable and determine the risk associated with each project. Some of the investment evaluation matrices to be used include; Return on investment, discounted cash flow and non-discounted metrics. Return on investment metrics measures the profitability of the project by comparing the cost and benefits of an investment while discounted cash flow metrics involve Net Present value, Pay back and internal rate of return. The discounted cash flow metrics measures whether the project will yield positive returns or not. On the contrary, non-discounted matrices applies accounting rate of return. The metrics measure project performance/progress over a given period. Therefore, it is advisable for Arizona Hospital to select a combination of metrics due to the prones and cones associated with each metrics. Some of the prones of discounted matrices include; they give the intrinsic value of an investment, they are easier to apply and are reliable to use than non-discounted cash flow metrics methods. Some of the disadvantages of discounted metrics over non-discounted metrics include; they are based on assumptions and can only be reliable when there is certainty of cash flows (Baker & English, 2011).

On the other hand, sensitivity analysis entails a mathematical technique used to determine the impact of independent variable over the dependent variable. The sensitivity may tell the senior managers of Arizona hospital whether the project will be optimal and the level of risk associated with a particular project so that necessary changes can be applied accordingly

<https://assignbuster.com/evaluating-capital-investment-projects/>

(Saltelli, Tarantola & Campolongo, 2004). This means that sensitivity analysis act as a useful tool for assessing capital projects risk and returns. This is because sensitivity analysis helps to identify the potential investments risk in the market, these help managers to prepare on how they can deal with that risk (Saltelli & Wiley InterScience, 2008).

References

Baker, H. K., & English, P. (2011). Capital budgeting valuation: Financial analysis for todays investment projects. Hoboken, N. J: Wiley.

Saltelli, A., Tarantola, S., & Campolongo, F. (2004). Sensitivity Analysis in Practice: A Guide to Assessing Scientific Models. Chichester: John Wiley & Sons.

Saltelli, A., & Wiley InterScience (Online service). (2008). Global sensitivity analysis: The primer. Chichester, England: John Wiley.