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TECHNICAL NOTE : THE VARIABLE FINANCIAL INDICATOR IRR AND THE CONSTANT ECONOMIC INDICATOR NPV

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ABSTRACT

The IRR (internal rate of return) and the NPV (net present value) are the two most common and important indicators in investment decisions. These two indicators, however, have intrinsic differences between one another. The IRR is a financial indicator and the NPV an economic indicator of a capital investment. The former gives the private investor's point of view and the latter the society's point of view. The value of ERR varies with the change of Financial arrangement of an investment. The NPV, however, does not but remains constant no matter how the financial arrangement changes. This paper uses an illustrative example to show their intrinsic differences and then describes a mathematical proof to substantiate the different natures of IRR and NPV.

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