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David G. Carmichael & Maria C. A. Balatbat

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Abstract

The article surveys contributions to the literature covering the field of probabilistic discounted cash flow (DCF) analysis of individual capital investments from the earliest contributions of the 1960s to today. Such analysis includes the methods of present worth (net present value), annual worth, future worth, internal rate of return, payback period, and benefit:cost ratio. The history and development of the probabilistic case is traced, listing the main assumptions made and any restrictions to applications. The survey will be found useful by those engaged in risk management and decisions associated with investments and budgeting having uncertain outcomes.

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