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# Average Internal Rate of Return and Investment Decisions: A New Perspective

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project's profitability and correctly ranks competing projects. With such a measure, which we call average internal rate of return, complex-valued numbers disappear and all the above-mentioned problems are wiped out. The economic meaning is compelling: it is the project return rate implicitly determined by the market. The traditional IRR notion may be found as a particular case.

## Notes

For example, the cash flow stream  $(-4, 12, -9)$  has a unique IRR equal to 50%. According to the IRR criterion, the project must be accepted if the market rate is smaller than 50%, but the NPV is negative for any rate different from 50%, so the project is not worth undertaking. (Note that this example implicitly introduces a further class of problems: if a project is not unambiguously individuated as either an investment or a borrowing, the IRR profitability rule is ambiguous.)

The approach is compatible with a bounded-rationality perspective: in this case  $r$  is a subjective threshold ([Magni, 2009b](#)).

The IRR rule is semantically not satisfactory because it is not associated with a univocal definition

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