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The IRR, NPV and the Fallacy of the Reinvestment Rate Assumptions

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ABSTRACT

The Internal Rate of Return and Net Present Value decision criteria are probably the most well known economic decision criteria; they are also probably the most

misunderstood. This paper examines two such criteria, the Internal Rate of Return (IRR) and Net Present Value (NPV), from a fundamental perspective. (1) based on the assumption of a constant discount rate. The consequences of this assumption are examined numerically.

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