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Influence of debt financing on the effectiveness of the finite duration investment project

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Abstract

The problem of the influence of debt financing on the effectiveness of the arbitrary duration investment project is studied and quantitative results are obtained for the first time. The effectiveness of the investment project is considered from two perspectives: the owners of equity and debt and equity holders only. It was shown, that NPV practically always decreases with leverage in case of a constant value of equity, and the maximum leverage level, at which the project is still effective ($NPV > 0$), was found.

In case of a constant value of equity, the NPV decreases with leverage. The maximum leverage level, at which the project is still effective ($NPV > 0$), was found.

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