Consider an uneven cash flow stream:

Year Cash Flow

1. $2,000
2. 2,000
3. 0
4. 1,500
5. 2,500
6. 4,000

a. What is the present (Year 0) value of the cash flow stream if the opportunity cost rate is 10 percent?

b. What is the value of the cash flow stream at the end of Year 5 if the cash flows are invested in an account that pays 10 percent annually?

c. What cash flow today (Year 0), in lieu of the $2,000 at the end of Year 5? (Assume that the cash flows for Years 1 through 5 remain the same.)

d. Time value analysis involves either discounting or compounding cash flows. Many healthcare financial management decisions, such as bond refunding, capital investment, and lease versus buy, involve discounting projected future cash flows. What factors must executives consider when choosing a discount rate to apply to forecasted cash flows?