

Present Value Index = PVI

@wikipedia

One of the efficiency metrics of [Financial Investment](#) defined as:

$$(1) \quad PVI = \frac{PV[CF^+]}{PV[CF^-]}$$

where

$CF^+ = \{CF_0^+, CF_1^+, CF_2^+, \dots\}$	Cash Inflows	$PV_r[CF^+]$	Present Value of future Cash Inflows CF^+
$CF^- = \{CF_0^-, CF_1^-, CF_2^-, \dots\}$	Cash Outflows	$PV_r[CF^-]$	Present Value of future Cash Outflows CF^-

In case of:

- Cash Flows CF consist of only positive inflows starting from $t = 1$: $\{CF^t > 0\}_{t>0}$
- Cash Outflows CF^- consist of only one initial investment I_0 : $CF^- = \{CF_0^- = I_0, 0, 0, \dots, 0\}$

then equation (1) turns into conventional [Profitability Index](#) equation:

$$(2) \quad PVI = \frac{PV[CF^+]}{PV[CF^-]} = \frac{PV[CF^+]}{I_0} = 1 + \frac{NPV}{I_0}$$

The key difference with [NPV](#) is that [PVI](#) shows a value of [returns](#) per unit [cash invested](#).

This particularly means that some [Projects](#) with higher [NPV](#) may be less attractive in [PVI](#) terms than [Projects](#) with lesser [NPV](#) as they require a higher [Initial Investment](#).

This allows a fair comparison of investment efficiency between two investment projects with different [Initial Investment](#) volumes.

The corporate investment policy usually dictates that:

- investment [Projects](#) with [PVI](#) 1 should be rejected
- investment [Projects](#) with higher [PVI](#) should have a priority over the [Projects](#) with lower [PVI](#)
- investment [Projects](#) with lower [PVI](#) are added up to the Investment Package to reach the pre-set value of affordable [Initial Investment](#) (I_0)
- investment [Projects](#) with lower risk should have a priority over the [Projects](#) with higher risk

The quantification of [Project](#)'s is performed individually for each [Project](#) based on its nature.

Weighing the [Project](#)'s risks against [PVI](#) to include to or exclude from Investment Package is based on the Corporate Investment Policy.

See also

[Economics](#) / [Investment](#) / [Financial Investment](#)

[[Net Present Value \(NPV\)](#)][[Profitability Index \(PI\)](#)]