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Economic Efficiency of Investment Projects

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Abstract

In this article, the definition of investment projects was considered, methods for assessing the economic efficiency of investment projects were derived, the factors of dependence of economic efficiency were noted, and then a conclusion was made throughout the work.

Keywords*: investment projects, economic efficiency, methods, factors, development.*

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Investment projects are plans that involve the investment of financial resources in generating profits and economic growth in the future. These may include starting a new business, expanding or upgrading an existing business, or investing in equipment, real estate, securities, and other assets to generate income. The purpose of the investment project is to make a profit with minimal risk of return on investment.

To assess the economic efficiency of investment projects, there are a number of methods:

1. Method of net present value (NPV) - evaluation of the project through the summation of cash flows, subtracting the initial investment.
2. Method of internal rate of return (IRR) - determination of the percentage of income from investments in accordance with the costs received.
3. NPV special case method - a simple check of the project for positive profitability by comparing the current value of cash flows and initial costs.
4. Method of profitability index (PI) - comparing the amount of cash flows with costs based on the total cost of the project.
5. Payback time method (PP) - determining how long it will take to return the investment.
6. Net present value variability method (Sensitivity NPV) - an analysis of how changes in a sensitive factor affect the project's net present value.

Note that the economic efficiency of investment projects depends on many factors:

1. Investment costs are the costs necessary to launch and successfully implement an investment project. They depend on the selected project strategies, scope of work, market conditions, technology and other factors.
2. The payback period is the time that passes from the moment you start investing in a project until the moment when its income begins to exceed its costs. The payback period depends on the size of the investment, the growth rate of profitability, the cost of production resources, tax liabilities, market conditions and other factors.
3. Market return is the return on the market in which the project operates. It depends on the demand for products, the degree of competition, the cyclical nature of social life, financial instruments, inflation, and other factors.
4. Investment risk is the probability of incurring losses in connection with investing funds in a project. The risk depends on the dangers associated with the project, the quality of the risk assessment, the financial stability of the investors, the political environment, etc.
5. Financial investment conditions are the conditions under which financial interaction between the investor and the project is carried out. They cover the terms and amounts of payments, the rules for the distribution of income, control over the activities of the project.
6. Social responsibility is the attitude of investors to socially significant issues in the design and implementation of investment projects. It depends on the consideration of the project's contribution to the social development of the region, environmental safety, etc.

In addition, its evaluation can be subjective, depending on the evaluation method. Therefore, in order to increase the likelihood of a successful investment in a project, different evaluation methods should be used and risks should be taken into account.

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It is also important to understand that the economic efficiency of investment projects is directly related to economic development. The higher the indicator of economic efficiency, the higher the level of economic development. Optimization of investments in projects, high profits and growth of the economy as a whole - this is what is achieved through a correct assessment of the economic efficiency of investment projects.

Thus, the economic efficiency of investment projects is a very important indicator that must be taken into account when making investment decisions. There are several methods for measuring the indicator, each of which has its own advantages and disadvantages. Calculations and risk analysis will increase the likelihood of successful investment in the project and, ultimately, increase economic development.

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