Investment Projects as Cash Flow Streams

In assessing the desirability of investment alternatives, we think of each alternative or project as a cash flow stream in order to determine the value of this cash flow stream and hence the project’s value added. Here is some useful terminology.

**Project Dependencies**

Economically independent investment projects – the cash flows of one project would be the same whether or not the other(s) were undertaken.
Economically dependent investment projects – the cash flows of one project would be different if the other(s) were undertaken than if the other(s) were not undertaken.

i. complementary projects – one made better off if the other(s) is undertaken (as in the manufacture of computer hardware if software is also developed).

ii. substitute projects – one is made worse off if the other(s) is undertaken (as in the manufacture of touch screen computer communication devices and the manufacture of “mouse” type devices).

iii. mutually exclusive projects – the undertaking of one project precludes the undertaking of the other(s) (as is often the case in land use projects)
Classification of Cash Flows

Conventional Cash Flows – outflows followed by inflows.

Non-conventional Cash Flows – cash outflows separated by inflows or cash inflows followed by cash outflows.