

Inflation Effect on Capital Budgeting Decisions – An Analytical Study

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Inflation can significantly impact capital budgeting decisions by altering the expected cash flows and costs associated with a project. An increase in inflation leads to higher costs, which can reduce the net present value (NPV) of a project. As a result, companies may reassess their capital budgeting decisions, considering projects with longer gestation periods or those with more stable cash flows. Inflation also affects discount rates, making it more difficult to evaluate projects with uncertain cash flows. Thus, companies must carefully analyze the effects of inflation on their capital budgeting decisions to make informed choices.

Keywords: Inflation, capital budgeting, net present value, NPV, inflation leads.