

SIMULATION A DEVICE FOR PROJECT EVALUATION (SIPE)

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ABSTRACT

The accepted normative prescription in the finance literature is that firms should select and, when necessary, rank proposed capital investment projects on the basis of their respective net present value. The typical corresponding operating recommendation is that these present values be calculated by discounting projects expected cash flows and market-determined rates (cost of capital) which reflects the (systematic) risks of the business activities in question.

In this paper we have applied simulation model to capital budgeting (SIPE) determined the same results as under DCF technique with additional concept of ignoring the use of cost of capital as discount rate. In the light of this evidence, the paper puts forward some recommendations and points out certain areas for future study.

Evaluation has been defined as "A process which attempts to determine as systematically and objectively as possible the relevance, defectiveness and impact of activities in the light of the objectives". Thus an evaluation is a critical analysis of the achievements and results of a project, programme or policy vis-a-vis the intended objectives, underlying assumption and strategy and resource management/ commitment. The purpose of evaluation is to transmit judgmental information to design matter that is to say, it is a process by which to verify retrospectively the relevance of what was intended, how, why and for whom and what, in fact, happened, how, why and for whom. Evaluation is an action-oriented management tool.

A development plan is essentially a format looking policy framework which envisages a concrete and prioritized but somewhat flexible programme of action to be launched in a dynamic situation to attain specified economic and social objective.

Recent international experience shows conclusively that the formulation of technically sound, economically viable and administratively feasible projects, the proper appraisal, implementation, management and evaluation are amongst the palpably weaker areas of development planning. Usually three main tools used in financial and economic analysis are the BCR (Benefit-Cost Ratio) NPV (Net Present Value) and IRR (Internal Ratio of Return)².

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1. Ch. M. Hussain "Project Appraisal Monitoring and Evaluation Processes with special reference to Pakistan Ed. 1985, Royal Book Company.
 2. Sayeda Zia AL-Jalaly (1991), "The project appraisal management and control system in Pakistan" A critical study Ed. 1991 En-Book PP 68.