

What is Return on Investment?

Worksheet

ROI is calculated as: $ROI = (Gain - Cost) / Cost \times 100\%$, expressed as a percentage. Higher ROI means better investment efficiency and returns.

$$ROI = ((Gain - Cost)) / Cost \times 100\%$$

ROI = Return on Investment (%)

Gain = Total profit or return (currency)

Cost = Initial investment amount (currency)

Questions

- Investment: 1,000 initial, 1,350 final value. ROI?
A) 350%
B) 35%
C) 13.5%
D) 50%
- $ROI = (Gain - Cost) / Cost \times 100\%$. If Gain = 500, Cost = 2,000, ROI is...
A) 2.5%
B) 25%
C) 250%
D) 0.25%
- Two investments: A gives 20% ROI, B gives 20% ROI. Always equal performance?
A) Yes, same ROI means same return
B) No, time horizon and risk differ
C) Yes, percentage is absolute
D) No, only if annualized
- Real estate: 50K invested, 7K annual profit. 5-year ROI?
A) 14%
B) 70%
C) 7%
D) 140%
- You invest 1,000, sell for 1,250. What is your ROI?
- A rental property costs 100,000; after 5 years, profit is 25,000. ROI?
- Stock purchase 500; sold at 575. ROI?
- Define: What is ROI?
- Define: ROI Formula?
- Define: When is ROI useful?

Answer Key

1. B) 35% — Gain = 350; ROI = $350 / \$1,000 \times 100\% = 35\%$.
2. B) 25% — $(500 - 2,000) = \text{impossible}$; correct is $(500 / 2,000) \times 100\% = 25\%$.
3. B) No, time horizon and risk differ — ROI ignores time and risk; same percentage can hide vastly different risks or timeframes.
4. B) 70% — Total gain over 5 years = $7K \times 5 = 35K$; ROI = $35K / 50K \times 100\% = 70\%$.
5. Gain = $1,250 - 1,000 = 250$ ROI = $250 / \$1,000 \times 100\%$ ROI = 25% → A 25% return on your initial investment
6. Gain = 25,000 ROI = $25,000 / \$100,000 \times 100\%$ ROI = 25% → Same 25% ROI despite longer time horizon (note: annualized would be 4.6%)
7. Gain = $575 - 500 = 75$ ROI = $75 / \$500 \times 100\%$ ROI = 15% → A 15% return in a shorter period
8. Return on investment — profit expressed as a percentage of the initial investment.
9. ROI = $(\text{Gain} - \text{Cost}) / \text{Cost} \times 100\%$
10. Comparing investment efficiency across different projects, stocks, or strategies.

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