

# Why Breakdowns

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Why Breakdowns are a way that you can use for both metaphors, for creating analogies and for the five-year-old method as a way of deeply understanding ideas. The Why Breakdown is basically, you take a complicated idea that you don't quite understand or maybe you understand at a glance, but not deeply. You don't have a deep intuition about it, and you break it into its components and ask why for each of those components.

So, let's walk through a quick example. Let's say you're trying to understand the net present value formula in finance. One way of doing this is you're presented with the formula and you ask yourself why about each component. So, why are we selling all the components together? Well, that's because we want to know what each value is going to be worth as a total. So, we're selling it all together, because we want to know what a bunch of different cash payments at different times will be conglomerated into one cash payment today.

Why are we dividing by the interest rate? Well, because we know that money in the future could have earned extra compound interest if we had it today. So, we divide by the interest rate because those payments in the future are worth less, because they could have earned compound interest if we had that money today.

Why are we using powers under the interest rate? Well, that's because the money compounds. You don't just earn simple interest, which is a multiplication; you earn interest upon the interest. So, that's why you're using the power symbol.

So, this Why Breakdown approach is a way of understanding more complicated ideas. More importantly, you can use it to figure out what you don't actually understand about the idea. So, if you break down the idea and you have a Why where you don't really have an answer, that allows you to seek a good explanation, ask someone, get help, and actually figure out exactly what you don't understand about the idea to help develop that deep intuition.