



QUIZ (12.04.2016)

Name: Number:

Answer each question by drawing a circle around the letter that, in your opinion, corresponds to the correct solution.

- 1- Your boss asked you to evaluate a project with an infinite life. Sales and Costs project are \$2,000 and \$1,500 per year, respectively (Assume sales and costs occur at the end of the year, i.e. profit of \$500 at the end of year one). There is no depreciation and the tax rate is 20 %. The real required rate of return is 10 %. The inflation rate is 4% and its expected to be 4% forever. Sales and Costs will increase at the rate of inflation. If the project costs \$1.500 what is the NPV?
 - A. \$ 2 500,00
 - B. \$ 5 166,67
 - C. \$ 2 660,00
 - D. \$ 2 367,00

- 2- A project requires an investment of \$800 today. It can generate sales of \$1,100 per year forever. Costs are \$600 for the first year and will increase by 20% (Assume all sales and costs occur at year-end, i.e., costs are \$600 @ t = 1.) Ignore taxes and calculate the NPV of the project at a 10% discount rate.
 - A. \$ 3,000.00
 - B. \$ 189,07
 - C. \$ 100,00
 - D. Cannot be calculated as $g > r$

- 3- The payback period rule accepts all projects for which the payback period is:
 - A. greater than the cut-off period
 - B. less than the cut-off period
 - C. positive
 - D. an integer.



4- Given the following data for Project M:

| | C0 | C1 | C2 |
|-------------------------|------|-----|-----|
| Cash flow in real terms | -200 | 150 | 120 |
| Real discount rate | 4% | | |
| Nominal discount rate | 8% | | |

Calculate the NPV of the project

- A. \$41.77
- B. \$55.18
- C. \$70.00
- D. \$50.00

5- Project X has the following cash flows: $C_0 = +2,100$, $C_1 = -1,200$, and $C_2 = -1,000$. If the IRR of the project is 3% and if the cost of capital is 6%, you would:

- A. Accept the project
- B. Reject the project
- C. Data provided is not enough to make a decision
- D. IRR should not be used in projects with this type of cash flow structure

6- Two mutually exclusive projects have the following positive NPVs and project lives.

| Type | NPV | Life |
|-----------|--------|------|
| Project A | \$6000 | 3 |
| Project B | \$8000 | 5 |

If the cost of capital were 15%, which project would you accept?

- A. Project A because its NPV can be earned more quickly
- B. Project A because it has higher EAC
- C. Project B because it has higher EAC
- D. Project B because it has higher NPV