

**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 to \$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 is expected to be 4% forever. Sales and costs will increase at the rate of inflation. If the project costs \$2,000, what is the NPV?
- A. \$ 4 667,67
 - B. \$ 2 160,00
 - C. \$ 1 867,00
 - D. \$ 2 000,00
- 2- A project requires an investment of \$600 today. It can generate sales of \$1,100 per year forever. Costs are \$600 for the first year and will increase by 20% per year. (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. \$ 3200,00
 - B. \$ 100,00
 - C. Cannot be calculated as $g > r$
 - D. 389,07
- 3- The payback period rule accepts all projects for which the payback period is:
- A. an integer.
 - B. greater than the cut-off period
 - C. less than the cut-off period
 - D. positive.



4- Given the following data for Project M:

	C0	C1	C2
Cash flow in nominal terms	-200	150	120

Real discount rate 5%

Nominal discount rate 10%

Calculate the NPV of the project

- A. \$51,70
- B. \$35,54
- C. \$45,21
- D. \$70,00

5- Project X has the following cash flows: $C_0 = +1,600$, $C_1 = -1,200$, and $C_2 = -1,000$. If the IRR of the project is 25% and if the cost of capital is 20%, 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	\$5000	3
Project B	\$8000	6

If the cost of capital were 12%, 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