



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 of the project are \$1,250 and \$750 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 40%. 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 \$1,500, what is the NPV?
 - A. \$ 3 500,00
 - B. \$ 1 367,00
 - C. \$ 1 500,00
 - D. \$ 1 620,00

- 2- A project requires an investment of \$700 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. \$ 289,07
 - B. \$ 3 100,00
 - 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. less than the cut-off period.
 - B. greater than the cut-off period
 - C. an integer
 - D. positive.



4- Given the following data for Project M:

	C0	C1	C2
Cash flow in real terms	-100	180	140

Real discount rate 4%

Nominal discount rate 10%

Calculate the NPV of the project

- A. \$202,51
- B. \$179,34
- C. \$190,91
- D. \$220,00

5- Project X has the following cash flows: $C_0 = +2,500$, $C_1 = -1,300$, and $C_2 = -1,800$. If the IRR of the project is 15% and if the cost of capital is 12%, 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	\$6500	5
Project B	\$5000	3

If the cost of capital were 10%, which project would you accept?

- A. Project B 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