



## 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 \$1,500 and \$1,000 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 \$2,000, what is the NPV?
  - A. \$ 867,00
  - B. \$ 1 000,00
  - C. \$ 3 000,00
  - D. \$ 1 120,00
  
- 2- A project requires an investment of \$500 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. \$ 489,07
  - B. \$ 3 300,00
  - 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. greater than the cut-off period
  - B. an integer
  - C. positive
  - D. less than the cut-off period



4- Given the following data for Project M:

	C0	C1	C2
Cash flow in nominal 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:  $C_0 = +2,800$ ,  $C_1 = -1,900$ , and  $C_2 = -1,800$ . If the IRR of the project is 21% and if the cost of capital is 25%, 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	6
Project B	\$4500	4

If the cost of capital were 12%, 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