

Project Appraisal 2012/2013
Mid-Term Test
2013.05.16

Group 1 (6)

Define the following concepts:

1. Rate of Reinvestment (1)
2. Sunk Costs (1)
3. WACC (1)
4. NPV of the stockholder (1)
5. Internal Rate of Return (1)
6. Income Statement (1)

Group 2 (5)

1. Explain the contribution of the strategic analysis methods and tools for defining the length of a project. (2)
2. Indicate the main steps towards the preparation and implementation of a real investment project. Exemplify. (3)

Group 3 (9)

A small business group wants to financially evaluate an industrial project to produce fruit soft drinks. Experts contracted to determine the viability of the project considered that the length of the project would be four-year including the year zero for preparing the project and doing the initial investment required. The investors contract a loan with the bank (100,000.00) at an interest rate of 6%. The required rate of return of own capital is 10% (cost of equity=10%). The reinvestment rate is 5% and the return of risk free assets is 2.5%. Based on additional assumptions, project financial flows were determined (price in euros, constant prices) and included in the table below.

	2014	2015	2016	2017
<i>Investment (in Fixed Capital)</i>	700,000.00	0.00	0.00	0.00
<i>Working Capital</i>		200,000.00	200,000.00	100,000.00
<i>Total Residual Value</i>				0.00
<i>Operational Cash Flow</i>		300,000.00	700,000.00	900,000.00

1. Selecting suitable certainty equivalent coefficients compute the certainty equivalent net present value of this project. Justify the coefficients selected and decide about the project. (3)
2. Compute the non-discounted Payback Period of this project. (1.5)
3. Attribute suitable residuals values for years 2015 and 2016 and compute the profile of NPV across time. Plot the results. Explain the utility of the result. (3)
4. Compute the modified internal rate of return and decide about the project selection. (1.5)