Question Exam

Consider a project of investment with the following characteristics:

-investment in fixed capital in year zero 200000 euros

-duration of the project 4 years including year zero

-residual value equal to zero at the end of the project.

-Tax gain rate 30%

-the sales in the first year will be (forecast) 100000 physic units corresponding to 10 % of the market where the project belongs.

-the market will grow at a rate of 3% per year and the sales of the project will grow at a rate of 5% per year

-each unit of the product has a price of 5 euros

-the variable costs are 50% of the sales

-the fixed costs (including depreciations) are 160000 euros

-depreciations are 50000 in each year of activity (1 to 3)

-the rate requested by the investors is 10%. The interest rate is 2% and the beta 1.1.

-the working capital investment is nil.

-the funding of the project is done exclusively by own capital.

a) Present the Income statement of this project. Compute the NPV and the IRR. Conclude about the project selection.

b) Explain the effect of a decrease of the size of the market where the project belongs. What must be changed in the Income Statement (indicate the lines to be changed)

c) A sensitivity analysis produced the following results …