

QUESTION AND ANSWER SHEET

QUESTION

ANSWER

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1. A company is considering a new investment project. The project requires an initial investment of \$100,000 and is expected to generate cash flows of \$30,000 per year for 5 years. The company's cost of capital is 10%. Calculate the Net Present Value (NPV) of the project.

Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Investment	-100,000					
Cash Flow		30,000	30,000	30,000	30,000	30,000
Discount Factor	1.000	0.909	0.826	0.751	0.681	0.621
Present Value	-100,000	27,273	24,778	22,530	20,430	18,630
NPV						

ANSWER

- NPV = -\$100,000 + \$30,000/1.10 + \$30,000/1.10^2 + \$30,000/1.10^3 + \$30,000/1.10^4 + \$30,000/1.10^5 = \$18,630
- NPV = -\$100,000 + \$30,000/1.10 + \$30,000/1.10^2 + \$30,000/1.10^3 + \$30,000/1.10^4 + \$30,000/1.10^5 = \$18,630