**FIN 500 Module 9**

Notes: This assignment is to be done individually. Show all calculations necessary and word-process your assignment. If a financial calculator is used, define all inputs in addition to the output. If Excel is used, copy all necessary data.

**Problem 1**

Suppose a company is considering two independent projects, Project A and Project B. The cash outlay for Project A is $14,000. The cash outlay for Project B is $20,000. The company’s cost of capital is 12%. The following table shows the after-tax cash flows. For each project, compute the NPV, the IRR, the MIRR, and indicate the accept/reject decision.

|  |  |  |
| --- | --- | --- |
| **Year** | **Project A** | **Project B** |
| 1 | $4800 | $6700 |
| 2 | $4800 | $6700 |
| 3 | $4800 | $6700 |
| 4 | $4800 | $6700 |

**Problem 2**

Suppose a company is considering two investment projects. Both projects require an upfront expenditure of $30 million. The company estimates that the cost of capital is 10% and that the investments will result in the following after-tax cash flows (in millions of dollars). Complete parts (a) through (e) below.

|  |  |  |
| --- | --- | --- |
| **Year** | **Project A** | **Project B** |
| 1 | $28 | $10 |
| 2 | $20 | $15 |
| 3 | $10 | $20 |
| 4 | $5 | $25 |

1. Find the regular payback period for each project.
2. Find the discounted payback period for each project.
3. Assume that the two projects are independent and the cost of capital is 10%. Which project or projects should the company undertake? Base your results on the NPV.
4. Assume that the two projects are mutually exclusive and the cost of capital is 5%. Which project or projects should the company undertake? Base your results on the MIRR.
5. Explain why quantitative measures may not always be the best way to evaluate a project.