(Future investment option) You are evaluating an investment in a carpet cleaning business

in Plattsburgh, NY. The NPV of the investment is −$2 million. For an additional outlay of

$0.1 million, you will have the option to add additional carpet cleaning businesses in the

region. If circumstances are favorable (probability = 0.5), the expansion option has an NPV

of $5 million. If circumstances are unfavorable (probability = 0.5), the expansion option

has an NPV of 0. What is the total NPV of the investment, including the cost and expected

value of the expansion option?

(Cash budgeting) Tulsa Well Supply Company has a cash balance at the end of June of

$1,200,000, and it predicts the net cash flows (in $1,000s) given here for the next six

months. If Tulsa must keep a cash balance of at least $1,000,000 at all times, when and

how much will it need to borrow to maintain this minimum cash balance?

**JUL. AUG. SEP. OCT. NOV. DEC.**

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