

85

Home work

Consider the following two mutually exclusive projects:

Year	Cash Flow (A)	Cash Flow (B)
0	50,000	50,000
1	10,000	16,000
2	25,000	16,000
3	15,000	16,000
4	20,000	16,000

If you know that there is no salvage after 4 year for any project, and the depreciation for first project is 12,500 and the second project is 12,500 whichever project you choose, if any, you require a 15 percent return on your investment.

- A). If you apply the payback criteria, which investment will you choose? Why?
- B). If you apply the Net Present Value (NPV) criteria, which investment will you choose? Why?
- C). If you apply the profitability index criteria (PI), which investment will you choose? Why?
- D). If you apply the Internal Rate of Return (IRR) criteria, which investment will you choose? Why?
- E). Based on your answers in (A) through (D), which project will you finally choose? Why?