1. Calculating Payback Period and NPV

eGolf, Inc., has the following mutually exclusive projects.

YEAR PROJECT A PROJECT B

0 -$10,500 -$8,400

1 6,000 4,300

2 5,000 3,900

3 1,500 3,600

1. Suppose eGolf’s payback period cutoff is 2yrs. Which of these two projects should be chosen?
2. Suppose eGolf uses NPV rule to rank these two projects. Which project should be chosen if the appropriate discount rate is 15percent?
3. Calculating Payback

An investment project provides cash inflows of $730 per year for 8yrs. What is the project payback period if the initial cost is $3,500? What if the initial cost is $5,000? What if it is $6,000?

1. Calculating IRR

Compute the internal rate of return for the cash flows of the following two projects.

**CASH FLOWS ($)**

**YEAR PROJECT A PROJECT B**

0 -$4,900 -$3,200

1 1,700 1,100

2 2,900 1,400

3 2,100 1,700

1. Calculating Profitability Index

Bill plans to open a self-serve grooming center in a storefront. The grooming equipment will cost $260,000. Bill expects after-tax cash inflows of $71,000 annually for 7yrs, after which he plans to scrap the equipment and retire to the beaches of Nevis. The first cash inflow occurs at the end of the first year. Assume the required return is 15percent. What is the project PI? Should it be accepted?

1. Calculating Project NPV

Craigs restaurant is considering the purchase of a $39,000 souffle maker. The soufflé maker has an economic life of six years and will be fully depreciated by the straight-line method. The machine will produce 2,500 souffles per year, with each costing $2 to make and priced at $7.

Assume that the discount rate is 14percent and the tax rate is 34 percent. Should the company make the purchase?