**John Piderit, the general manager of the Western Tool Company, is considering introducing some new tools to the company’s product line. The top management of the firm has identified three types of tools (referred to as projects A, B, and C). The various divisions of the firm have provided the data given in the following table on these three possible projects. The company has a limited capital budget of $2.4 million for the coming year. (a) Which project(s) would the firm undertake if it used the NPV investment criterion? (b) Is this the correct decision? Why?**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Project A** | **Project B** | **Project C** |
| Present Value of net cash | $3,000,000 | $1,750,000 | $1,400,000 |
| Flows (PVNCF) |  |  |  |
| Initial cost of project (C0) | $2,400,000 | $1,300,000 | $1,100,000 |
| NPV = PVNCF – C0 | $ 600,000 | $ 450,000 | $ 300,000 |
| PI = PVNCF  C0 | 1.3 | 1.3 | 1.3 |
|  |  |  |  |

**\* Remember the firm has a limited capital budget of $2.4 million for the coming year. In other words, the firm faces the capital rationing, see pp. 589-592. Use the profitability index as its investment criterion.**