

## QUESTION 1

QUESTION 1: A company is considering a new investment project. The project has a 5-year life and is expected to generate the following cash flows:

Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Investment	(100)					
Operating Cash Flow		30	40	50	60	70
Salvage Value						20
Net Cash Flow	(100)	30	40	50	60	90

The company's cost of capital is 10%. The project's NPV is:

NPV =  $\frac{-100}{1.10^0} + \frac{30}{1.10^1} + \frac{40}{1.10^2} + \frac{50}{1.10^3} + \frac{60}{1.10^4} + \frac{90}{1.10^5}$

NPV =  $-100 + 27.27 + 33.06 + 37.57 + 40.91 + 50.66$

NPV =  $89.47 - 100 = -10.53$

The project's NPV is negative, indicating that the project is not profitable. The company should not invest in this project.