

LAST NAME \_\_\_\_\_

FIRST NAME \_\_\_\_\_

a) The IRR criterion

- should be used only when comparing projects of different scales
- can lead to accepting projects that would be rejected using the NPV rule**
- is wrong because it puts too much weight on recent cash flows
- is wrong because it ignores discounting

b) Four projects A, B, C and D require the same investment at date 0 and have the same opportunity cost of capital. Their cash flows from dates 1 to 3 are given in the table below. Which project has the highest Net Present Value (NPV)?

	CF <sub>1</sub>	CF <sub>2</sub>	CF <sub>3</sub>
A	80	80	80
B	90	70	80
C	90	80	70
D	90	75	75

- Project A
- Project B
- Project C**
- Project D
- They all have the same NPV

**The following applies to questions c, d, and e below:**

You are considering a project that lasts for one year. It requires an investment of 100 at date 0, which is fully depreciated at date 1. The project generates 250 in sales and 120 in costs (excluding depreciation) at date 1. The tax rate is 50%. The discount rate for the project is 10%.

c) What is the cash flow from the project at date 1?

- 130
- 15
- 15
- 30
- 115**

d) What is the NPV of the project?

- 22.73
- 4.17
- 4.55**
- 14.25
- 14.45

e) Now assume (for this question only) that your suppliers allow you to pay them with a one-year delay, that is, at date 2. How does the NPV of the project change compared to the previous question?

- The NPV goes up**
- The NPV goes down
- The NPV is unchanged
- We cannot tell

LAST NAME \_\_\_\_\_

FIRST NAME \_\_\_\_\_

a) The IRR criterion

- should be used only when comparing projects of similar scales
- can lead to investment decisions that are the same as when using the NPV criterion**
- is wrong because it puts too much weight on recent cash flows
- is wrong because it ignores discounting

b) Four projects A, B, C and D require the same investment at date 0 and have the same opportunity cost of capital. Their cash flows from dates 1 to 3 are given in the table below. Which project has the lowest Net Present Value (NPV)?

	CF <sub>1</sub>	CF <sub>2</sub>	CF <sub>3</sub>
A	80	90	80
B	100	70	80
C	90	80	80
D	95	75	80

- Project A**
- Project B
- Project C
- Project D
- They all have the same NPV

**The following applies to questions c, d, and e below:**

You are considering a project that lasts for one year. It requires an investment of 100 at date 0, which is fully depreciated at date 1. The project generates 250 in sales and 120 in costs (excluding depreciation) at date 1. The tax rate is 50%. The discount rate for the project is 20%.

c) What is the cash flow from the project at date 1?

- 130
- 15
- 15
- 30
- 115**

d) What is the NPV of the project?

- 22.73
- 4.17**
- 4.55
- 14.25
- 14.45

e) Now assume (for this question only) that you allow your clients to pay you with a one-year delay, that is, at date 2. How does the NPV of the project change compared to the previous question?

- The NPV goes up
- The NPV goes down**
- The NPV is unchanged
- We cannot tell

LAST NAME \_\_\_\_\_

FIRST NAME \_\_\_\_\_

a) The payback period criterion

- should be used only when comparing projects of similar scales
- always leads to investment decisions that are the same as when using the NPV criterion
- should not be used**
- should be used only for projects with short horizons

b) Four projects A, B, C and D require the same investment at date 0 and have the same opportunity cost of capital. Their cash flows from dates 1 to 3 are given in the table below. Which project has the highest Net Present Value (NPV)?

	CF <sub>1</sub>	CF <sub>2</sub>	CF <sub>3</sub>
A	80	80	80
B	90	70	80
C	90	80	70
D	90	75	75

- Project A
- Project B
- Project C**
- Project D
- They all have the same NPV

**The following applies to questions c, d, and e below:**

You are considering a project that lasts for one year. It requires an investment of 500 at date 0, which is fully depreciated at date 1. The project generates 2500 in sales and 1500 in costs (excluding depreciation) at date 1. The tax rate is 40%. The discount rate for the project is 20%.

c) What is the cash flow from the project at date 1?

- 300
- 500
- 700
- 800**
- 1000

d) What is the NPV of the project?

- 22.73
- 22.73
- 115.38
- 166.67**
- 233.33

e) Now assume (for this question only) that your suppliers allow you to pay them with a one-year delay, that is, at date 2. How does the NPV of the project change compared to the previous question?

- The NPV goes up**
- The NPV goes down
- The NPV is unchanged
- We cannot tell

LAST NAME \_\_\_\_\_

FIRST NAME \_\_\_\_\_

a) The payback period criterion

- should be used only when comparing projects of different scales
- can lead to reject projects that would be accepted using the NPV criterion**
- can always be used as an alternative to the NPV criterion
- should be used only to choose between two mutually exclusive projects

b) Four projects A, B, C and D require the same investment at date 0 and have the same opportunity cost of capital. Their cash flows from dates 1 to 3 are given in the table below. Which project has the lowest Net Present Value (NPV)?

	CF <sub>1</sub>	CF <sub>2</sub>	CF <sub>3</sub>
A	80	90	80
B	100	70	80
C	90	80	80
D	95	75	80

- Project A**
- Project B
- Project C
- Project D
- They all have the same NPV

**The following applies to questions c, d, and e below:**

You are considering a project that lasts for one year. It requires an investment of 500 at date 0, which is fully depreciated at date 1. The project generates 2500 in sales and 1500 in costs (excluding depreciation) at date 1. The tax rate is 40%. The discount rate for the project is 30%.

c) What is the cash flow from the project at date 1?

- 300
- 500
- 700
- 800**
- 1000

d) What is the NPV of the project?

- 22.73
- 22.73
- 115.38**
- 166.67
- 233.33

e) Now assume (for this question only) that you allow your clients to pay you with a one-year delay, that is, at date 2. How does the NPV of the project change compared to the previous question?

- The NPV goes up
- The NPV goes down**
- The NPV is unchanged
- We cannot tell