**FINANCIAL MANAGEMENT**

**ASSIGNMENT – 6**

**CAPITAL BUDGETING**

1. The NPV rule states that only incremental cash flows are to be considered while evaluating a project. Explain how. Consider all the rules under incremental cash flows.
2. Sony is considering setting up a new unit for manufacture new generations Playstations. This would entail an initial cost of USD 20 billion, and is expected to generate cash flows of USD 5 billion for a period of 7 years. They are planning to discontinue an existing capex where they have already invested USD 3 billion, since they do not find that line of production to be economically viable. They are going to use a land for this, which has a market value of USD 2 billion. The plant may have no salvage value, and this new line of Playstation may cause a loss of sales in existing gaming consoles. The cash impact of that is assumed to be USD 400 million every year. Show the cash flow stream that needs to be discounted for this project.
3. Explain the concept of sensitivity analysis and scenario analysis. What are the issues with these?