

CEL 779		CONSTRUCTION ECONOMICS AND FINANCE	MAJOR TEST	
Time 8:00-10:00	2 hour		Maximum Marks	50
Venue	VILT1		Date	30.04.2008

ASSUME MISSING DATA SUITABLY IF REQUIRED.

There are five questions. Each of the questions carries 10 marks.

Q 1.

An appraisal of three mutually exclusive projects is being carried out. The criterion rate of return for the company is 9%. The cash flow forecasts for the three projects are as follows:

Project	A	B	C
Initial investment	6000	8000	9000
Net annual receipts	1100 for years 1 to 3 and 1400 thereafter	1500	1900
Life	8	8	8
Salvage value	800	1200	800

Which project should be recommended? Support your recommendation by calculation.

Q 2.

A construction company has identified three potential outcomes for an investment of Rs. 10 Lakhs. The total returns from each investment plus the profits which will occur in less than 1 year and the associated probabilities are as follows: A = 1400,000 with $P(A) = 0.2$; B = 1200,000 with $P(B) = 0.5$; and C = 500,000 with $P(C) = 0.3$.

A consultant could be hired to provide additional information. The past record of the consultant in evaluating similar conditions is given in the following table, where A_c , B_c , and C_c represent predictions by the consultant that, respectively, states A, B, and C will occur. The table gives the probability of the consultant's prediction given that the state occurs.

Consultant's prediction	Occurrence of state		
	A	B	C
A_c	0.8	0.1	0.1
B_c	0.1	0.9	0.2
C_c	0.1	0	0.7