**Module Four Workshop**

**Project Proposal and Economics based Project Appraisal Technique**

**1. Introduction to the Group Project**

**2. Team Establishment**

**3. Reading material: a Project Proposal**

**Melbourne Metro Rail (MMR) Project evaluation –** Full business case is available on the canvas.

**When reviewing this full business case, please note the key components of the report.**

**4. Economic Appraisal Exercise**

Two alternative designs have been put forward for the construction of a new retail park near Geelong.

In option one, the survey work will cost $1,000,000, the purchase of the required land will cost $50 million, and the construction will cost a further $150 million. Operating and maintenance costs will be $20,000,000 a year. The retail park is expected to have 5 million customers a year; each person is expected to spend $10. At the end of the operational period, the land will have a resale value of $4,000,000.

In the second alternative, the construction cost will be $250 million, and the land purchases $60 million. The survey cost will be the same as for alternative 1. Operating costs will be $25 million per year, with salary costs at 20% of operation costs. The expected income from customers is expected to be $100 million, but the site will have no resale value.

The construction of alternative one will result in the loss of 10Ha of a national park. A survey suggested that the public would be prepared to pay $250,000 per ha to maintain the national park to be used by the public each year. However, the infrastructure created by the retail park is expected to save customers $5 per visit in petrol compared to existing alternatives. In alternative 2, there will be a loss of 50 HA of the national park, and there will be a parking fee that will negate the savings in alternative 1.

Both alternatives will have a design life of 50 years. An IRR of 7.5% has been selected as appropriate for the project. Based on an economic analysis using NPV, determine which option should be selected.