

Making A Choice

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To evaluate three potential projects, we will use the payback period method which is used to calculate the amount of time it takes for an investment to generate an amount of cash inflows equal to the initial investment (Boardman, C. M., Reinhart, W. J., Celec S. E., 1982). We will use this to help decide which project we would like to select.

Payback Period

	Initial Investment	Revenue/Month	Waiting Period (Years)	Total Payback Period
MAN Network	\$ 10,000,000	\$ 500,000	2	3.67
County School District	\$ 1,000,000	\$ 50,000	1	2.67

	Initial Investment	Sales	Annual Revenue	Waiting Period (Years)	Total Payback Period
Housing Network	\$ 10,000,000	\$ 5,400,000	\$ 840,000	2	7.48

My Selection

Based on these calculations, the County School District project has the shortest payback period and the Housing Network Project has the longest. For this reason I would pursue the County School District project. Having the shortest payback period makes the investment less risky and give me a better chance to get a return on my initial investment.

Pros

There are a few pros to this pick. This project has the lowest initial investment. This makes it a lower risk and can result in a quicker return on my investment. In addition, there is a steady cash flow because the project will have a consistent monthly revenue only after one year compared to the other projects where there will be a two year waiting period. Since this is

smaller project, there will be less variables and uncertainties so the forecasted budget will be easier to predict (uCertify, 2024). This will allow me to have better control over my expenses.

Cons

While this project make result in steady returns, the potential for a larger total return is much lower because the overall revenue is lower. In addition, This project will be only for a County School District so there will not be a large potential for increased earnings over time and there will not be as much room for the project to grow.

Conclusion

Like any project, this project has it's pros and cons. There is never a guarantee for a return on your investment but it is still best to choose the option that will have the highest potential for return to reduce your risk (Weingartner, H. M., 1969). For this reason, I would still choose the County School District project because it has a great chance for a steady revenue stream and there is much less risk. Also, I will be able to make a profit earlier than the other projects. This will allow me to reinvest that money into new projects at an earlier date.

Reference

Boardman, C. M., Reinhart, W. J., Celec S. E., (1982), *THE ROLE OF THE PAYBACK PERIOD IN THE THEORY AND APPLICATION OF DURATION TO CAPITAL BUDGETING*.

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uCertify (2024), *8.4 Determining Budget*

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Weingartner, H. M., (1969), *SOME NEW VIEWS ON THE PAYBACK PERIOD AND CAPITAL BUDGETING DECISIONS*.

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