6.Tutorium

Übungsaufgaben
Investition & Finanzierung
Sommersemester 2011

41) Comparing Investment Criteria (6 A 24)

The treasurer of Amaro Canned Fruits has projected the cash flows of projects A, B and C as follows:

Year	Project A (€)	Project B (€)	Project C (€)
0	-100.000	-200.000	-100.000
1	70.000	130.000	75.000
2	70.000	130.000	60.000

Suppose the relevant discount rate is 12 per cent per year.

a. Compute the profitability index for each of the three projects.
b. Compute the NPV for each of the three projects.
c. Suppose these three projects are independent. Which project(s) should Amaro accept, based on the profitability index rule?
d. Suppose these projects are mutually exclusive. Which project(s) should Amaro accept, based on the profitability index rule?
e. Suppose Amaro's budget for these projects is €300.000. The projects are not dividable. Which project(s) should Amaro accept?

42) Incremental Cash Flows (7 A 2)

In the context of capital budgeting, what is an opportunity cost?

43) Inflation and Capital Budgeting (7 A 3)

In an hyperinflationary environment, how would you incorporate inflation into a capital budgeting analysis? Explain your methodology in words to a manager who is worried about the power of capital budgeting when inflation is very high.

6.Tutorium

44) Equivalent Annual Cost (7 A 19)

Bridgton Golf Academy is evaluating different golf equipment. The "Dimple-Max" equipment costs £45,000, has a three-year life and costs £5,000 per year to operate. The relevant discount rate is 12 per cent. Assume that the reducing balance (20 per cent) depreciation method is used. Furthermore, assume the equipment has a salvage value of £20,000 at the end of the project's life. The relevant tax rate is 28 per cent. All cash flows occur at the end of the year. What is the equivalent annual cost (EAC) of this equipment?

45) Inflation and company value (7 A 17)

Sparkling Water Plc expects to sell 2 Million bottles of drinking water each year in perpetuity. This year each bottle will sell for £1.25 in real terms and will cost £0.70 in real terms. Sales income and costs occur at year-end. Revenues will rise at a real rate of 7 per cent annually, while real costs will rise at a real rate of 5 per cent annually. The real discount rate is 10 per cent. The corporate tax rate is 28 per cent. What is Sparkling worth today?