1). Yes, EEC should acquire the supplier.

2). NPV and IRR tools are mostly used technique.

3). Payback tool is least used technique.

4). The answer would be different when we use EEC’s cost of capital of 25%.

5). No, the answer would be different if EEC did not save $500,000 per year.

6). The least amount of savings that would make this investment attractive to EEC is $383,427.

7). $2 millions

Memo to: The President From: CEO

From: Mukesh Reddy Kavadapu

Subject: Investment Analysis

Purchasing of supplier is very good option. If EEC purchases the supplier for $2 million with the cost of capital of 14%. It would benefit the company as the NPV is positive and IRR is more than 14%. EEC is expecting that the company save $500,000 per year in next 10 years by purchasing the supplier. After first 4 years the company payback starts. The least amount of savings that would make this investment attractive to EEC is $383,427.