

Review Questions: Alternatives to NPV

- 1) You are considering a project with the following CFs:

Year 0	1	2	3	4
-54	19	22	16	32

- a) Calculate the NPV of the bond given the following discount rates:

r	NPV?
10%	
15%	
20%	
25%	

- b) In between which interest rates does the IRR fall? Estimate the IRR.

- 2) You are considering the following 2 projects. Your company can only undertake one of them and you have to decide which project to pursue. The projects both have 4 year lives and have the following CFs:

	Year 0	1	2	3	4
Project A	- 5000	2500	2000	500	3300
Project B	- 4000	1000	3000	2000	700

Project A has an IRR of 23.7%, and Project B has an IRR of 25.4%. The discount rate for evaluating projects is 9%.

- a) What are the payback periods of the 2 projects?
- b) Your subordinate suggests taking Project B because it has the higher IRR. What do you think? Explain your reasoning.