

QUESTION

QUESTION: A company is considering a new investment project. The project requires an initial investment of \$100,000 and is expected to generate cash flows of \$30,000 per year for 5 years. The company's cost of capital is 10%. Calculate the Net Present Value (NPV) of the project.

ANSWER: To calculate the NPV, we need to discount the cash flows back to their present value and then subtract the initial investment. The formula for NPV is:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+r)^t} - I_0$$

where CF_t is the cash flow in year t , r is the cost of capital, and I_0 is the initial investment.

QUESTION: A company is considering a new investment project. The project requires an initial investment of \$100,000 and is expected to generate cash flows of \$30,000 per year for 5 years. The company's cost of capital is 10%. Calculate the Internal Rate of Return (IRR) of the project.

ANSWER: The IRR is the discount rate that makes the NPV of the project equal to zero. We can find the IRR by solving the following equation:

$$0 = \sum_{t=1}^n \frac{CF_t}{(1+IRR)^t} - I_0$$

where CF_t is the cash flow in year t , IRR is the internal rate of return, and I_0 is the initial investment.

QUESTION: A company is considering a new investment project. The project requires an initial investment of \$100,000 and is expected to generate cash flows of \$30,000 per year for 5 years. The company's cost of capital is 10%. Calculate the Payback Period of the project.

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