

## QUESTION

1. 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.

2. 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

1. The NPV of the project is calculated as follows:

$$NPV = \frac{\$30,000}{1 + 0.10} + \frac{\$30,000}{(1 + 0.10)^2} + \frac{\$30,000}{(1 + 0.10)^3} + \frac{\$30,000}{(1 + 0.10)^4} + \frac{\$30,000}{(1 + 0.10)^5} - \$100,000$$

2. The IRR of the project is calculated as follows:

The IRR is the discount rate that makes the NPV of the project equal to zero. In this case, the IRR is approximately 18.5%.

3. The NPV of the project is calculated as follows:

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