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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.

ANSWER

The NPV is calculated as follows:

$$NPV = -100,000 + \frac{30,000}{1.1} + \frac{30,000}{1.1^2} + \frac{30,000}{1.1^3} + \frac{30,000}{1.1^4} + \frac{30,000}{1.1^5}$$

The NPV is positive, indicating that the project is profitable and should be accepted.

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