Extra Credit Quiz for Monday, November 7, 2011 --- Due Friday, November 11, 2011

Please answer the following 3 questions worth 5 points each.

1. The St. Louis Corporation has been presented with an investment opportunity that will yield the following end of year cash flows:

| Year | Cash Flow |
|---|---|
| 0 | -$150,000 [the cost of the project] |
| 1 | $30,000 |
| 2 | $30,000 |
| 3 | $30,000 |
| 4 | $30,000 |
| 5 | $35,000 |
| 6 | $35,000 |
| 7 | $35,000 |
| 8 | $35,000 |
| 9 | $35,000 |
| 10 | $40,000 |

The firm's cost of capital is 10%. What is the NPV for this investment?

Tell whether the firm should undertake this project based on the NPV.

2. Using the information from problem 1, calculate the internal rate of return (IRR) for the proposed project. Would the firm accept or reject this project on the basis of its IRR?

3. Using information from problem 1, determine the payback period on this project. Would the payback period for this project indicate that the firm should undertake this opportunity? Tell why the NPV method is considered to be superior to the use of the payback method.