

## QUESTION 1

QUESTION 1: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3. If unsuccessful, the project will generate a cash flow of -\$5 million in year 1, -\$10 million in year 2, and -\$15 million in year 3.

The company's cost of capital is 10%. What is the project's NPV?

Options: A) \$1.5 million B) \$2.5 million C) \$3.5 million D) \$4.5 million

## ANSWER 1

### ANSWER 1: B) \$2.5 million

QUESTION 2: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

- 1. If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3.
- 2. If unsuccessful, the project will generate a cash flow of -\$5 million in year 1, -\$10 million in year 2, and -\$15 million in year 3.

QUESTION 3: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

- 1. If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3.
- 2. If unsuccessful, the project will generate a cash flow of -\$5 million in year 1, -\$10 million in year 2, and -\$15 million in year 3.
- 3. The company's cost of capital is 10%.
- 4. What is the project's NPV?

QUESTION 4: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

- 1. If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3.

QUESTION 5: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

- 1. If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3.

## ANSWER 2

ANSWER 2: B) \$2.5 million

QUESTION 6: A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The project's expected cash flows are as follows:

- 1. If successful, the project will generate a cash flow of \$10 million in year 1, \$20 million in year 2, and \$30 million in year 3.
- 2. If unsuccessful, the project will generate a cash flow of -\$5 million in year 1, -\$10 million in year 2, and -\$15 million in year 3.