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Section 1

Section 1.1

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Section 2

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Section 3

Section 3.1

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Section 4

Section 4.1

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QUESTION

QUESTION: A company is considering a new investment project. The project requires an initial outlay of \$100,000 and is expected to generate cash flows of \$30,000 per year for 4 years. The company's cost of capital is 10%. Calculate the Net Present Value (NPV) of the project.

ANSWER

ANSWER: The NPV of the project is calculated as follows:
NPV = -100,000 + 30,000 / (1 + 0.10)^1 + 30,000 / (1 + 0.10)^2 + 30,000 / (1 + 0.10)^3 + 30,000 / (1 + 0.10)^4
NPV = -100,000 + 27,273 + 24,793 + 22,539 + 20,490
NPV = -15,005