**Quiz: 2/8/12**

**Quiz:** Your firm is considering whether or not to build a new factory. Based on the following information, should your firm build the factory if the cost of capital for the factory equals 9% per year?

The factory can be built for a total of $1,200,000. Of this cost, $400,000 would be spent today and $800,000 would be spent six months from today. In addition to the cost to build the factory, the firm spent $125,000 one year ago developing the product that will be manufactured at the new facility. The factory will generate its first monthly cash flow of $60,000 nine months from today. After this initial cash flow, the cash flows will grow by 0.5% each through the closing of the plant five years from today. Net working capital associated with the factory will jump to $300,000 six months from today and will remain at this level until the plant is closed five years from today.

Note: You don’t have to solve anything. Just set it up and tell me how you would make a decision (if you had solved it).

\[
NPV = -400,000 - \left( \frac{800,000 + 300,000}{1+r(\frac{1}{12})} \right) + \left( \frac{60,000}{1+r(\frac{1}{12})^{5/12}} \right) \left( 1 - \left( \frac{1.005}{1+r(\frac{1}{12})} \right)^{5/12} \right) + \left( \frac{1}{1+r(\frac{1}{12})^{5/12}} \right) + \left( \frac{300,000}{(1.09)^5} \right)
\]

**WSJ1:** A group of top European banks is disclosing that they
a. plan to merge into a European super bank
b. have suspended their operations in Syria
C. didn’t borrow money under the European Central Bank’s bank-lending program
d. intend to expand their operations in the United States and Canada
e. no longer hold any Greek sovereign debt

**WSJ2:** The Wall Street Journal reports that key concessions by __________ over its holdings of Greek government bonds will contribute to a reduction of the country’s debt burden and smooth the path toward a new bailout for the country.

a. Credit Suisse
b. the Federal Reserve
c. Goldman Sachs
d. the International Monetary Fund
E. the European Central Bank