Quiz: 2/8/12 Name ____________________________

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).

Note: Bonus WSJ Questions on back of page