Quiz B: 4/23/12 Name & Time ____________________________

Quiz: Draw a decision tree for the following project. Be sure to clearly label anything you want me to grade.

Assume that Sweep the Aggies Inc. is considering whether or not to build a factory today at a cost of $250,000. There is a 30% chance that the factory will produce annual cash flows of $15,000 per year and a 70% chance that the project will produce annual cash flows of $25,000 per year. Either way, cash flows would continue through 15 years from today. If sales are high ($25,000 per year), the factory could be expanded three years from today at a cost of $150,000. This expansion will allow the factory to generate additional annual cash flows of $20,000 per year starting four years from today that would continue through 15 years from today. If the factory is not expanded, annual cash flows would continue at $25,000 per year (through 15 years from today). If sales are low ($15,000 per year), the factor can be sold one year from today for $185,000.

Note: Bonus WSJ Questions on back of page