## Short-Answer

1. Which of the capital budgeting rules discussed in Chapter 7 fails because it ignores the time value of money?

2. Which of the capital budgeting rules discussed in Chapter 7 measures the “bang for your buck” – the value created per unit of resource consumed?

3. Which of the capital budgeting rules discussed in Chapter 7 may fail because of multiple solutions?

4. Why might the internal rate of return rule fail to indicate which project has the highest net present value?

5. Why might the payback rule fail to indicate which project has the highest net present value?

6. List (but do not discuss) three conditions under which the following decision rule cannot or should not be used for making capital budgeting decisions: Accept the project with the highest internal rate of return.

## Multiple-Choice

1. Which of the following capital budgeting decision rules ignores the time value of money?
   I. payback
   II. internal rate of return
   III. economic value added
   IV. net present value
   V. incremental internal rate of return
   VI. profitability index

   a. all but IV
   b. only I
   c. only II and III
   d. only I and VI
   e. none of the rules ignore the time value of money