

# Net present value and correct answer



**Question 1 2 out of 2 points**

Assume that the economy is in a mild recession, and as result interest rates and money costs generally are relatively low. The WACC for two mutually exclusive projects that are being considered is 8%. Project S has an IRR of 20% while Project L's IRR is 15%. The projects have the same NPV at the 8% current WACC. However, you believe that the economy is about to recover, and money costs, and thus your WACC will also increase. You also think that the projects will not be funded until the WACC has increased, and their cash flows will not be affected by the change in economic conditions.

Under these conditions, which of the following statements is CORRECT?

Answer Selected

Answer: You should recommend Project S because at the new WACC it will have a higher NPV.

Correct Answer: You should recommend Project S because at the new WACC it will have a higher NPV.

**Question 2 2 out of 2 points**

Which of the following statements is CORRECT?

Selected Answer: Multiple IRRs can occur only if the signs of the cash flows change more than once.

Correct Answer: Multiple IRRs can occur only if the signs of the cash flows change more than once.

**Question 3 2 out of 2 points**

Which of the following statements is CORRECT?

Selected Answer: One advantage of the NPV over the IRR is that NPV assumes that cash flows will be reinvested at the WACC, whereas IRR assumes that cash flows are reinvested at the IRR. The NPV assumption is generally more appropriate.

Correct Answer: One advantage of the NPV over the IRR is that NPV assumes that cash flows will be reinvested at the WACC, whereas IRR assumes that cash flows are reinvested at the IRR. The NPV assumption is generally more appropriate.

**Question 4 2 out of 2 points**

Which of the following statements is CORRECT?

Selected Answer: One defect of the IRR method is that it assumes that the cash flows to be received from a project can be reinvested at the IRR itself, and that assumption is often not valid.

Correct Answer: One defect of the IRR method is that it assumes that the cash flows to be received from a project can be reinvested at the IRR itself, and that assumption is often not valid.

**Question 5 2 out of 2 points**

Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.

Selected Answer: If a project has normal cash flows and its IRR exceeds its WACC, then the project's NPV must be positive.

Correct Answer: If a project has normal cash flows and its IRR exceeds its WACC, then the project's NPV must be positive.

Question 6 2 out of 2 points

Assume that the economy is enjoying a strong boom, and as result interest rates and money costs generally are relatively high. The WACC for two mutually exclusive projects that are being considered is 12%. Project S has an IRR of 20% while Project L's IRR is 15%. The projects have the same NPV at the 12% current WACC. However, you believe that the economy will soon fall into a mild recession, and money costs, and thus your WACC will soon decline. You also think that the projects will not be funded until the WACC has decreased, and their cash flows will not be affected by the change in economic conditions. Under these conditions, which of the following statements is CORRECT?

Selected Answer: You should recommend Project L because at the new WACC it will have a higher NPV.

Correct Answer: You should recommend Project L because at the new WACC it will have a higher NPV.

Question 7 2 out of 2 points

Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.

Selected Answer: The higher the WACC used to calculate the NPV, the lower the calculated NPV will be.

Correct Answer: The higher the WACC used to calculate the NPV, the lower the calculated NPV will be.]

Question 8 2 out of 2 points

Which of the following statements is CORRECT? Answer

Selected Answer: An NPV profile graph is designed to give decision-makers an idea about how a project's contribution to the firm's value varies with the cost of capital.

Correct Answer: An NPV profile graph is designed to give decision-makers an idea about how a project's contribution to the firm's value varies with the cost of capital.

Question 9 2 out of 2 points

Which of the following statements is CORRECT? Answer

Selected Answer: If two projects have the same cost, and if their NPV profiles cross in the upper right quadrant, then the project with the lower IRR probably has more of its cash flows coming in the later years. |

Correct Answer: If two projects have the same cost, and if their NPV profiles cross in the upper right quadrant, then the project with the lower IRR probably has more of its cash flows coming in the later years.

Question 10 2 out of 2 points

Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows. Answer

Selected Answer: If a project's NPV is less than zero, then its IRR must be less than the WACC.

Correct Answer: If a project's NPV is less than zero, then its IRR must be less than the WACC.

Question 11 2 out of 2 points

Which of the following statements is CORRECT?

Selected Answer: The NPV method assumes that cash flows will be reinvested at the WACC, while the IRR method assumes reinvestment at the IRR.

Correct Answer: The NPV method assumes that cash flows will be reinvested at the WACC, while the IRR method assumes reinvestment at the IRR.

Question 12 0 out of 2 points

Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.

Selected Answer: If a company uses the same payback requirement to evaluate all projects, say it requires a payback of 4 years or less, then the company will tend to reject projects with relatively short lives and accept long-lived projects, and this will cause its risk to increase over time.

Correct Answer: One drawback of the regular payback for evaluating projects is that this method does not properly account for the time value of money.

Question 13 2 out of 2 points

Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.

Selected Answer: A project's IRR is the discount rate that causes the PV of the inflows to equal the project's cost.

Correct Answer: A project's IRR is the discount rate that causes the PV of the inflows to equal the project's cost.

Question 14 2 out of 2 points

Which of the following statements is CORRECT? Answer

Selected Answer: Projects with "normal" cash flows can have only one real IRR.

Correct Answer: Projects with "normal" cash flows can have only one real IRR.

Question 15 0 out of 2 points

Which of the following statements is CORRECT?

Selected Answer: If a firm uses the discounted payback method with a required payback of 4 years, then it will accept more projects than if it used a regular payback of 4 years.

Correct Answer: Multiple IRRs can exist, but not multiple MIRRs. This is one reason some people favor the MIRR over the regular IRR.