

GB550: Financial Management | Unit 4

Investment Project Value - Details and Rubric

This assignment is assessing learning outcome:

GB550-3: Assess the value of proposed investment projects.

1. Complete problem: Cost of Equity-CAPM

XYZ, Inc. has a beta of 0.8. The yield on a 3-month T-bill is 4%, and the yield on a 10-year T-bond is 6%. The market risk premium is 5.5%, and the return on an average stock in the market last year was 15%. What is the estimated cost of common equity using the CAPM? Show your work.

2. Complete problems: NPV, IRR, MIRR, Profitability Index, Payback, Discounted Payback

A project has an initial cost of \$60,000, expected net cash inflows of \$10,000 per year for 8 years, and a cost of capital of 12%. Show your work.

- What is the project's NPV? (Hint: Begin by constructing a timeline).
- What is the project's IRR?
- What is the project's MIRR?
- What is the project's PI?
- What is the project's payback period?
- What is the project's discounted payback period?

3. Your division is considering two investment projects, each of which requires an up-front expenditure of 20 million. You estimate that the investment will produce the following net cash flows:

Year	Project A	Project B
1	\$5,000,000	\$20,000,000
2	10,000,000	10,000,000
3	20,000,000	6,000,000

- What are the two project's net present values, assuming the cost of capital is 5%? 10%? 15%?
- What are the two projects' IRRs at these same costs of capital?

Show your work.

Prepare this Assignment as a Word® document. List each question, followed by your answer.

Once completed, submit your Assignment to the Unit 4 Assignment Dropbox. The Assignment is due Tuesday 11:59 p.m. ET of their assigned unit.