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Time taken 19 hours 12 mins

Marks 12.00/20.00

Grade 6.00 out of 10.00 (60%)

Question 1

Incorrect

Mark 0.00 out of
1.00

The internal rate of return (IRR) is:

Select one:

- a. the interest rate that allows an investor to recoup the initial investment.
- b. the interest rate that breaks even a project's costs and benefits.
- c. the interest rate that is set up by an investor to guarantee that the return on investment will be higher than from a bank interest rate.
- d. the interest rate that measures the return from operating costs. ✗
- e. the interest rate that ensures the positive cash flow of a project.

Your answer is incorrect.

The correct answer is: the interest rate that breaks even a project's costs and benefits.

Question 2

Correct

Mark 1.00 out of
1.00

The reasoning behind comparison of mutually exclusive projects on the basis of incremental IRR is:

Select one:

- a. different fractions of investments are associated with different levels of productivity. ✓
- b. high uncertainty.
- c. multiple IRRs.
- d. some investments are not productive.
- e. all investments are non-simple.

Your answer is correct.

The correct answer is: different fractions of investments are associated with different levels of productivity.

Question 3

Correct

Mark 1.00 out of 1.00

When is the internal rate of return (IRR) negative?

Select one:

- a. IRR cannot be negative.
- b. a project just breaks even.
- c. a project is losing money. ✓
- d. a project is a simple investment.
- e. a cash inflow exceeds a cash outflow.

Your answer is correct.

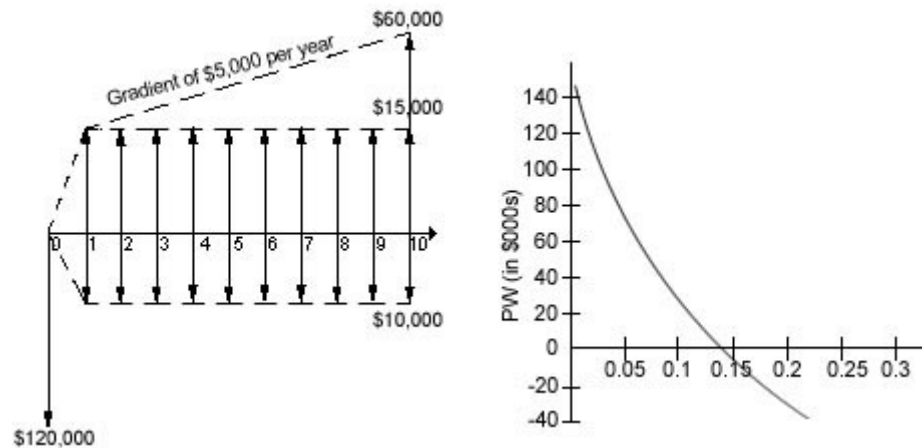
The correct answer is: a project is losing money.

Question 4

Correct

Mark 1.00 out of 1.00

The following graphs indicate a project cash flow. What is the internal rate of return for this project?



Select one:

- a. 10%
- b. 4%
- c. 0%
- d. 14% ✓
- e. 15%

Your answer is correct.

The correct answer is: 14%

Question 5

Correct

Mark 1.00 out of 1.00

Consider these two mutually exclusive alternatives. We should choose the one that:

Select one:

- a. has an incremental investment with the rate of return exceeding minimum acceptable rate of return. ✓
- b. has a higher internal rate of return assuming the lives of the alternatives are equal.
- c. has a higher internal rate of return regardless of the lives of the alternatives.
- d. has an incremental investment with a rate of return equal to the minimum acceptable rate of return.
- e. has a higher minimum acceptable rate of return assuming the lives of the alternatives are equal.

Your answer is correct.

The correct answer is: has an incremental investment with the rate of return exceeding minimum acceptable rate of return.

Question 6

Incorrect

Mark 0.00 out of 1.00

A project requires an initial investment of \$75 000 and pays \$35 000 right away. The next year this project requires an additional investment of \$100 000 and does not pay anything. In the following year the project pays \$125 000. The internal rate of return (i) for this project can be obtained by:

Select one:

- a. solving an i th degree polynomial equation.
- b. solving a quadratic equation.
- c. using a present worth factor. ✗
- d. calculating an external rate of return.
- e. solving a system of two equations.

Your answer is incorrect.

The correct answer is: solving a quadratic equation.

Question 7

Correct

Mark 1.00 out of 1.00

A project requires no initial investment. It costs \$4 000 a year from now and earns \$8 000 two years from now. What is its internal rate of return?

Select one:

- a. 141%
- b. 50%
- c. 24%
- d. 75%
- e. 100% ✓

Your answer is correct.

The correct answer is: 100%

Question 8

Incorrect

Mark 0.00 out of 1.00

What is the major advantage of the internal rate of return comparison method?

Select one:

- a. It facilitates the comparison of projects of different size.
- b. It has familiar meanings to decision makers. ✗
- c. It takes into account the need to have capital recovered quickly.
- d. It gives an explicit measure of profit.
- e. It is very easy to calculate and therefore it is commonly used.

Your answer is incorrect.

The correct answer is: It facilitates the comparison of projects of different size.

Question 9

Correct

Mark 1.00 out of 1.00

What is the major disadvantage of the internal rate of return method?

Select one:

- a. It ignores the time value of money.
- b. It complicates the comparison of projects of the different sizes.
- c. It can produce more than one internal rate of return. ✓
- d. It ignores the expected service life.
- e. It discriminates against long-term projects.

Your answer is correct.

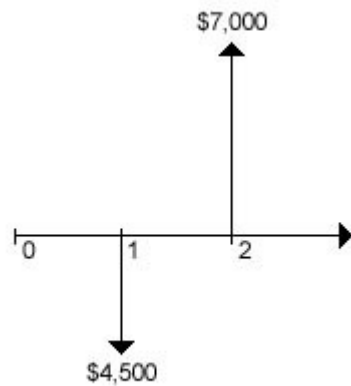
The correct answer is: It can produce more than one internal rate of return.

Question 10

Correct

Mark 1.00 out of 1.00

A project has the following cash flow diagram. What is its rate of return?



Select one:

- a. 22%
- b. 74%
- c. 60%
- d. 56% ✓
- e. 36%

Your answer is correct.

The correct answer is: 56%

Question 11

Correct

Mark 1.00 out of 1.00

Unlike the IRR method, the present and annual worth computations:

Select one:

- a. do not account for the time value of money.
- b. discriminate against long-term projects.
- c. give a direct measure of the profit provided by a project. ✓
- d. do not take into account expected service life of a project.
- e. are more complicated.

Your answer is correct.

The correct answer is: give a direct measure of the profit provided by a project.

Question 12

Correct

Mark 1.00 out of 1.00

The following table contains information for five projects. The IRR on the incremental investment between project 5 and project 4 is 16%.

If all projects are independent and the company has at least \$1 025 000 to invest, which projects should be undertaken if the MARR is 16%?

Project	First Cost (in \$)	IRR on Overall Investment	IRR on Increments of Investment Compared with Projects (%)			
			1	2	3	4
1	100,000	19%				
2	175,000	15%	9%			
3	200,000	18%	17%	23%		
4	250,000	16%	12%	17%	13%	
5	300,000	17%	14%	11%	17%	16%

Select one:

- a. 2 and 4
- b. 1, 3 and 5
- c. 1, 3, 4 and 5 ✓
- d. 2 only
- e. 1, 2, 3, 4 and 5

Your answer is correct.

The correct answer is: 1, 3, 4 and 5

Question 13

Incorrect

Mark 0.00 out of 1.00

The following table contains information for five projects. The IRR on the incremental investment between project 5 and project 4 is 16%.

If the projects are mutually exclusive, which projects should be undertaken if the MARR is 15%?

Project	First Cost (in \$)	IRR on Overall Investment	IRR on Increments of Investment Compared with Projects (%)			
			1	2	3	4
1	100,000	19%				
2	175,000	15%	9%			
3	200,000	18%	17%	23%		
4	250,000	16%	12%	17%	13%	
5	300,000	17%	14%	11%	17%	16%

Select one:

- a. 3 only ✗
- b. 1, 3, 4, and 5
- c. 5 only
- d. 3 and 5
- e. 3, 4 and 5

Your answer is incorrect.

The correct answer is: 5 only

Question 14

Incorrect

Mark 0.00 out of 1.00

A two-year project obtains an initial investment of \$100 million and generates net savings of \$60 million per year. What is the project's IRR?

Select one:

- a. 11.1%
- b. 14.1%
- c. 12.1% ✗
- d. 10.1%
- e. 13.1%

Your answer is incorrect.

The correct answer is: 13.1%


Question 15

Incorrect

Mark 0.00 out of
1.00

Generally, the IRR comparison method and the PW comparison method produce:

Select one:

- a. different results for both independent projects and mutually exclusive projects.
- b. the same results for independent projects and mutually exclusive projects with unequal lives.
- c. the same results for independent projects but not for mutually exclusive projects.

- d. the same results for independent projects and mutually exclusive projects with equal lives.
- e. the same results for mutually exclusive projects but not for independent projects.

Your answer is incorrect.

The correct answer is: the same results for independent projects and mutually exclusive projects with equal lives.


Question 16

Incorrect

Mark 0.00 out of
1.00

A new car is to be purchased for \$14 500. A car dealer computes the monthly payment to be \$267 for 6-year financing. What is the dealer's effective annual rate of return on this loan?

Select one:

- a. 10.67%
- b. 11.33%
- c. 10.23%
- d. 9.33%

- e. 9.77%

Your answer is incorrect.

The correct answer is: 10.23%

Question 17

Correct

Mark 1.00 out of
1.00

A project involves spending \$1 000 right now, and will require additional spending of \$100 a year for the next ten years, starting one year from now. After ten years the project will yield an income of \$3 000. What is the rate of return on this project?

Select one:

- a. 7.5%
- b. 5.5% ✓
- c. 3.5%
- d. 6.5%
- e. 4.5%

Your answer is correct.

The correct answer is: 5.5%

Question 18

Incorrect

Mark 0.00 out of
1.00

A project involves spending \$2 000 right now, and will require additional spending of \$150 a year for the next ten years, starting one year from now. After ten years, this project will yield an income of \$8 000, but a year later, an additional \$1 000 will be spent to close down the project. What is the rate of return on this project?

Select one:

- a. 9%
- b. 12%
- c. 10%
- d. 13%
- e. 11% ✗

Your answer is incorrect.

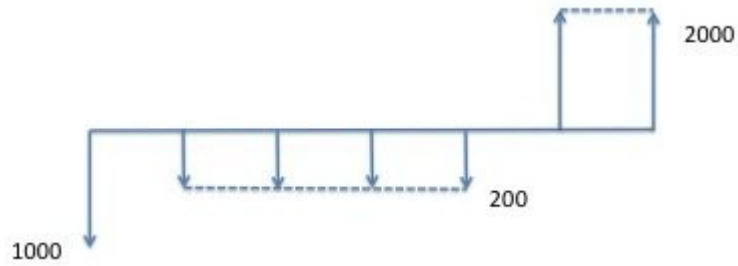
The correct answer is: 9%

Question 19

Correct

Mark 1.00 out of 1.00

What is the IRR of the following cashflow diagram?



Select one:

- a. about 22%
- b. about 19% ✓
- c. about 12%
- d. about 9%
- e. about 25%

Your answer is correct.

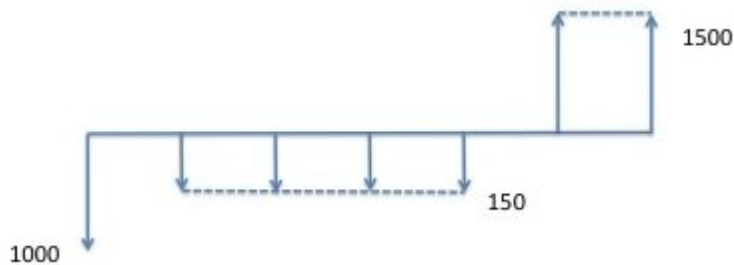
The correct answer is: about 19%

Question 20

Correct

Mark 1.00 out of 1.00

What is the IRR of the following cashflow diagram?



Select one:

- a. About 13.5%
- b. About 10.5%
- c. About 12.5%
- d. About 11.5%
- e. About 14.5% ✓

Your answer is correct.

The correct answer is: About 14.5%