

Certain aspects of the decision are difficult to quantify. Management's relationship with the union hasn't always been a smooth one and union leadership may not agree to the layoff of the redundant workers. Reassigning them to positions in other divisions might be easier but there are currently only a handful of suitable openings, some of which are not in the collective bargaining unit.

The specs on the new machine indicate that even higher levels of product quality and lower scrap rates are possible. In light of ever-increasing competition, this might prove to be of enormous competitive advantage. The new machine has a maximum capacity 27% higher than the old semi-automated machines which are currently operating at 90% capacity.

Assignment Parts:

- a. Calculate the firm's Weighted Average Cost of Capital.
- b. Identify and analyze the relevant cash flows for the two alternatives - buying the new machine vs. continuing to use the old ones.
- c. List and describe briefly any areas of uncertainty or concern for this project – beyond the obvious ones described in the narrative. What effect might they have? Bullet points are just fine.
- d. Based on your results in parts b & c, explain why you would or would not proceed with the new machine.

Guidelines:

- Show all work and briefly label and explain each step. I must be able to follow your work – points off if I have to struggle with it.
- Do not change the assumptions in the problem or invent information not provided; however, be sure to list any additional assumptions you feel you need to make.