

Part B: Answer each of the following questions. Show all calculations where necessary. Each answer is worth 20.5 points.

1. A firm is evaluating a project that's using a risk-appropriate discount rate of 10 percent and has normal cash flows as shown in the table below. Compute the net present value (NPV) for the project. Should the firm go ahead with the project? Explain why or why not.

Year	0	1	2	3	4
CASH FLOW	-\$,8,500	\$1,800	\$2,400	\$2,100	\$3,900

2. Suppose that Big Bear Adventure Tours, Inc., has the balance sheet displayed below and that sales for the year that just ended amounted to \$12 million. The company also has a profit margin of 25 percent, and a retention ratio of 30 percent, and it expects sales of \$18 million next year. The company pays 6 percent interest on its long-term debt and has a tax rate of 30 percent. If all assets and current liabilities are expected to grow with sales, how much in additional funds will Big Bear Adventure Tours need from external sources to fund the expected growth?

Assets		Liabilities and Equity	
CURRENT ASSETS	\$2,900,000	CURRENT LIABILITIES	\$ 600,000
FIXED ASSETS	<u>3,100,000</u>	LONG-TERM DEBT	2,800,000
		EQUITY	<u>2,600,000</u>
TOTAL ASSETS	<u>\$6,000,000</u>	TOTAL LIABILITIES AND EQUITY	<u>\$6,000,000</u>

3. You've been invited to take a trip to Australia to tour the Outback with friends. The Airline ticket is \$1,500, room and board is \$1,150, tourist guide \$500, and spending money \$650. The indirect quote for U.S. dollars to Australian dollars is \$0.9802, and the direct quote is \$1.0201. What is the total amount needed for the trip? How many U.S. dollars will you need to convert to Australian dollars to reach this amount?