

Part 4 The Capital Budgeting Process

3. Assume a firm has earnings before depreciation and taxes of \$200,000 and no depreciation. It is in a 40 percent tax bracket.
 - a. Compute its cash flow.
 - b. Assume it has \$200,000 in depreciation. Recompute its cash flow.
 - c. How large a cash flow benefit did the depreciation provide?