

ECO B9502
Spring 2006
Homework 5
Due Monday, April 10, 2006

Year	Benefit	Cost	Salvage Value
Beginning of Year 1	\$0	\$100000	0
End of Year 1	\$70000	\$40000	0
End of Year 2	\$60000	\$35000	0
End of Year 3	\$45000	\$33000	0
End of Year 4	\$50000	\$20000	0
End of Year 5	\$20000	\$19000	\$3000

Suppose a transportation firm is considering investing in a project with the costs and benefit per period given above.

- (1) If the discount rate is 6%, should the firm invest in the project?
- (2) Suppose the discount rises to 10%. Should it invest?
- (3) Suppose the discount rate is 6% and the salvage value of the project rises to \$10000. Is it still worthwhile to invest?