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c. The impact of changing the interest rate is shown below. There is still a positive NPV but it shrinks as the interest rate increases. This would be expected since a higher interest rate reduces the present value of future cash flows.

| | | |
|-----------|-----|-------------|
| Base Case | 8% | \$8,503,043 |
| | 9% | \$8,283,241 |
| | 10% | \$8,069,666 |
| | 12% | \$7,662,136 |

11. Perrot Corporation (Patay) Chip.

a. In the base case the Patay2 Chip Project has a very good NPV of \$10,460,000; see below.

| Project Schedule | Year 1 | | Year 2 | | Year 3 | | Year 4 | |
|--------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half |
| Patay2 Chip | | | | | | | | |
| Development Cost | 5,000 | 5,000 | 5,000 | 5,000 | | | | |
| Pilot Testing Cost | | | 2,000 | 2,000 | | | | |
| Design Cost | | | 2,000 | 2,000 | | | | |
| Ramp-up Cost | | | 3,000 | | | | | |
| Advertising and Marketing Cost | | | 5,000 | | | | | |
| Ongoing Marketing and Support | | | | 500 | 500 | 500 | 500 | |
| Production Revenue | | | 125 | 125 | 75 | 75 | | |
| Unit Production Cost | | | 65 | 65 | 54 | 54 | | |
| Production Costs | | | 81,875 | 81,875 | 40,875 | 40,875 | | |
| Unit Volume | | | 125 | 125 | 75 | 75 | | |
| Unit Price | | | 825 | 825 | 650 | 650 | | |
| Unit Revenue | | | 103,125 | 103,125 | 48,750 | 48,750 | | |
| Period Cash Flow | -5,000 | -5,000 | -8,000 | -17,000 | 20,125 | 20,125 | 7,275 | 7,275 |
| PV Year 1 + 12 | -5,000 | -4,742 | -8,148 | -14,685 | 18,517 | 15,768 | 5,503 | 5,181 |
| Project NPV | 10,460 | | | | | | | |

b. Additional 10 million for higher price is clearly worthwhile as it raises the NPV from \$10.46 million to \$18.654 million. See results below.

3-7

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