Solutions

2.1

- 9,000/1.1 + 11,000/1.21 + 12,000/1.331 + 10,000/1.4641.
- = 8,182 + 9,091 + 9,016 + 6,830 = 33,119.
- NPV = 33,119 − 28,000 = £5,119.

2.2

- Cumulative: 9,000; 20,000; 32,000 – 20,000 < 28,000 < 32,000.
- Payback = 2 + 8,000/12,000 = 2.67 years.

2.3

- Both positive NPV; the oven's 5,119 beats the rival's 1,608.
- Choose the oven – NPV says so (pounds of value).
- IRR prefers the rival (21.9%) – IRR ignores scale.

2.4

- NPV: how much richer, in pounds today?
- IRR: what rate of return?
- Payback: how long is the money exposed?

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