Capital Project Analysis CFIN 6-3

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What three decision-making tools are commonly used to evaluate capital projects?

2. How do opportunity costs and sunk costs differ?

3. True or False? _____ The payback method is common in companies due to the ease of its use.

4. The most accepted method for evaluating capital projects is _____
   a. payback
   b. net present value
   c. internal rate of return
   d. the risk analysis process

5. Which of the following NPV elements is most accurate because it requires the least estimating? _____
   a. cash flows
   b. start-up costs
   c. risk
   d. cost of capital

6. In some countries, being expected to hire family members before others would be an example of _____ risk.
   a. geographic
   b. economic
   c. cultural
   d. political

7. Which of these would be considered a sunk cost? _____
   a. depreciation for a currently owned building
   b. materials for production of vehicles
   c. electricity for the company's office
   d. taxes owed for current profits

TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

8. Describe a business situation in which a company is creating a new product. In your team, identify geographic, economic, social-cultural, and political-legal factors that could create risk for the company.