1. You are considering two mutually exclusive projects with the following cash flows. Will your choice between the two projects differ if the required rate of return is 8% rather than 11%? If so, what should you do?

Year	Project A	Project B
0	-$240,000	-$198,000
1	$ 0	$110,800
2	$ 0	$ 82,500
3	$325,000	$ 45,000

A. Yes; Select A at 8% and B at 11%.
B. Yes; Select B at 8% and A at 11%.
C. Yes; Select A at 8% and select neither at 11%.
D. No; Regardless of the required rate, project A always has the higher NPV.
E. No; Regardless of the required rate, project B always has the higher NPV

2. It will cost $5,500 to acquire a small computer back-up system. Cost savings are expected to be $1,800 a year for three years. After the three years, the system is expected to be worthless as that is the expected remaining life of the technology. What is the payback period of the system?
A. .86 years
B. 1.46 years
C. 3.06 years
D. 2.06 years
E. 2.86 years

3. Jack is considering adding toys to his general store. He estimates that the cost of inventory will be $4,200. The remodeling expenses and shelving costs are estimated at $1,500. Toy sales are expected to produce net cash inflows of $1,300, $1,600, $1,700, and $1,750 over the next four years, respectively. Should Jack add toys to his store if he assigns a three-year payback period to this project?
A. Yes; because the payback period is 2.94 years
B. Yes; because the payback period is 2.02 years
C. Yes; because the payback period is 3.63 years
D. No; because the payback period is 2.02 years
E. No; because the payback period is 3.63 years

4. The cash flow tax savings generated as a result of a firm's tax-deductible depreciation expense is called the:
A. after-tax depreciation savings.
B. depreciable basis.
C. depreciation tax shield.
D. operating cash flow.
E. after-tax salvage value.

5. Marshall's & Co. purchased a corner lot in Eglon City five years ago at a cost of $640,000. The lot was recently appraised at $810,000. At the time of the purchase, the company spent $50,000 to grade the lot and another $4,000 to build a small building on the lot to house a parking lot attendant who has overseen the use of the lot for daily commuter parking. The company now wants to build a new retail store on the site. The building cost is estimated at $1.2 million. What amount should be used as the initial cash flow for this building project?

$1,200,000
B. $1,840,000
C. $1,890,000
D. $2,010,000
E. $2,060,000

6. A project will increase sales by $300,000 and cash expenses by $55,000. The project will cost $500,000 and be depreciated using the straight-line method to a zero book value over the 5-year life of the project. The company has a marginal tax rate of 40%. What is the yearly value of the depreciation tax shield?

A. $20,000
B. $40,000
C. $22,500
D. $25,000
E. $37,750