

Chapter 8, Problem 9

Shrinking Stomach: DCF

	Year			
	0	1	2	3
Discount rate for investment	10%	10%	10%	10%
Discount factor	1.00	0.91	0.83	0.75
Outflows	-\$20,000,000		-\$10,000,000	-\$60,000,000
PV of outflows	-\$20,000,000		-\$8,264,463	-\$45,078,888
Discount rate for payoff	20%	20%	20%	20%
Discount factor	1.00	0.83	0.69	0.58
Inflows				\$70,000,000
PV of inflows				\$40,509,259
PV of net cash flows	-\$20,000,000	\$0	-\$8,264,463	-\$4,569,629
NPV = Sum of PVs of net cash flows	-\$32,834,092			

