1) Projects A and B have the same expected lives and initial cash outflows. However, one project’s cash flows are larger in the early years, while the other project has larger cash flows in the later years. The two cash profiles are given below:

![NPV Graph](image)

Which of the following statements is most correct?

a. Project A has the smaller cash flows in the later years.
b. Project A has the larger cash flows in the later years.
c. We require information on the cost of capital in order to determine which project has larger early cash flows.
d. The NPV profile graph is inconsistent with the statement made in the problem.
e. None of the statements above is correct.

2) Which of the following statements is most correct?

a. If a project’s internal rate of return (IRR) exceeds the cost of capital, then the project’s net present value (NPV) must be positive.
b. If project A has a higher IRR than project B, then project A must also have a higher NPV.
c. The IRR calculation implicitly assumes that all cash flows are reinvested at a rate of return equal to the cost of capital.
d. Answers a and c are correct.
e. None of the answers above is correct.
3. Project A has an internal rate of return (IRR) of 15%. Project B has an IRR of 14%. Both projects have a cost of capital of 12%. Which of the following statements is correct?

a. Both projects have a positive net present value (NPV).
b. Project A must have a higher NPV than project B.
c. If the cost of capital were less than 12%, Project B would have a higher IRR than Project A.
d. Statements a and c are correct.
e. Statements a, b and c are correct.

4. Which of the following statements is correct?

a. The IRR method is appealing to some managers because it produces a rate of return upon which to base decisions rather than a dollar amount like the NPV method.
b. The discounted payback method solves all the problems associated with the payback method.
c. For independent projects, the decision to accept or reject will always be the same using either the IRR or NPV method.
d. All of the above statements are correct.
e. Statements a and c are correct.

5. Projects C and D are mutually exclusive. Project C has a higher net present value if the WACC is less than 12%, whereas Project D has a higher net present value if the WACC exceeds 12%. Which of the following statements is most correct?

a. Project D has a higher internal rate of return.
b. Project D is probably larger in scale than Project C.
c. Project C probably has a faster payback.
d. All of the above statements are correct.
e. Answers a and c are correct.

6. A company estimates that its weighted average of cost of capital (WACC) is 10%. Which of the following independent projects should the company accept?

a. Project A requires an up-front expenditure of $1,000,000 and generates a net present value of $3,200.
b. Project B has a modified internal rate of return of 9.5%.
c. Project C requires an up-front expenditure of $1,000,000 and generates a positive internal rate of return of 9.7%.
d. Project D has an internal rate of return of 9.5%.
e. None of the projects above should be accepted.