

Spring 2006

1. d
2. b
3. b
4. b or e
5. use of tax deductions and credits, bankruptcy considerations, off-balance sheet, reduced cost of borrowing
6. b or e
7. b
8. not graded
9. c, note, it was 40% over 4 years, thus 10% per year.
10. b
11. a
12. the answer depends on the date of the newspapers used in the problem.
13. the answer depends on the date of the newspapers used in the problem.

Open book

1. After-tax cash flows by year are Year 0 =+5454, Year 1=-2377.8, Year 2=-2683.8, Year 3=-311.4, discounted at 5.54% yields NPV=516.23. Net Salvage is -1229.4 discounted at 9.9%, yields NPV -926.19. with NAL=-409.95. Since NAL is negative then borrow and buy.
2. a. 29.41  
b.  $-10+29.41=19.41$ , since  $NPV + NAL > 0$  and  $NPV < 0$ , then accept and lease
3. 7.31%
4. 67,276.64 +/- 3 bonds was accepted due to rounding.
5. A
6. D
7. \$48,762.89 if start in dollars, or 43939.60 if start in Euros
8. From the 2003 textbook currency table answers are below (these answers vary based on dated of currency table).
  - a. 14,157,650 yen
  - b. .5895 NZD/ 1 PNS
  - c. 1,179,000 NZD
  - d. Yen, Swiss Franc
9. \$956.91, .39%, \$960.61, 102400 Yen, depreciated, 1.97%