

**QUESTION**  
A company is considering a new investment project. The project has a 5-year life and will require an initial investment of \$100,000. The project is expected to generate cash flows of \$25,000 per year for the first 5 years. The company's cost of capital is 10%. What is the NPV of the project?



**ANSWER**  
The NPV of the project is \$15,000. The NPV is calculated as follows:  
NPV = -\$100,000 + \$25,000 / (1 + 0.10)^1 + \$25,000 / (1 + 0.10)^2 + \$25,000 / (1 + 0.10)^3 + \$25,000 / (1 + 0.10)^4 + \$25,000 / (1 + 0.10)^5  
NPV = -\$100,000 + \$22,727 + \$20,661 + \$18,765 + \$17,059 + \$15,513  
NPV = \$15,000

