

## QUESTION

1. A company is considering a new investment project. The project has a 50% chance of being successful and a 50% chance of being unsuccessful. The expected cash flows are as follows:

Year 0: -\$100,000  
Year 1: \$150,000 (if successful) or \$50,000 (if unsuccessful)

Year 2: \$200,000 (if successful) or \$100,000 (if unsuccessful)

Year 3: \$250,000 (if successful) or \$150,000 (if unsuccessful)

Year 4: \$300,000 (if successful) or \$200,000 (if unsuccessful)

Year 5: \$350,000 (if successful) or \$250,000 (if unsuccessful)

Year 6: \$400,000 (if successful) or \$300,000 (if unsuccessful)

Year 7: \$450,000 (if successful) or \$350,000 (if unsuccessful)

Year 8: \$500,000 (if successful) or \$400,000 (if unsuccessful)

Year 9: \$550,000 (if successful) or \$450,000 (if unsuccessful)

Year 10: \$600,000 (if successful) or \$500,000 (if unsuccessful)

Year 11: \$650,000 (if successful) or \$550,000 (if unsuccessful)

Year 12: \$700,000 (if successful) or \$600,000 (if unsuccessful)

Year 13: \$750,000 (if successful) or \$650,000 (if unsuccessful)

## ANSWER

The expected cash flows for the project are as follows:

Year 0: -\$100,000  
Year 1: \$100,000  
Year 2: \$150,000  
Year 3: \$200,000  
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Year 5: \$300,000  
Year 6: \$350,000  
Year 7: \$400,000  
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Year 10: \$550,000  
Year 11: \$600,000  
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