

TOPIC

Economics – Section VI – Question 9

QUESTION

Two alternatives have the following cash flows.

Year	Alternative A	Alternative B
0	- \$3,000	- \$3,500
1	+ \$1,700	+ \$2,000
2	+ \$1,700	+ \$2,000

Assuming a 6% interest rate, use the Net Present Worth (NPW) and Net Future Worth (NFW) methods to identify the alternative that should be selected.

- (A) Alternative A
- (B) Alternative B
- (C) Neither alternative A or B
- (D) Both alternatives A and B are good

HINT

Net Present Worth (NPW) = PW of benefits – PW of cost

Net Future Worth (NFW) = FW of benefits – FW of cost

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