

Exercise 4

A Company is considering to build an upscale hotel near Honolulu, Hawaii. The piece of land costs \$30 million. The project will take 3 years to complete and cost \$20 million per year. After the construction is completed, the hotel is expected to generate \$9 million per year. After ten years, the hotel (including the land) will have market value of \$133 million.

1. If the company is willing to accept any capital investment that will earn at least 10 %, should the investment be considered?

- (a) No.
- (b) Yes.

2. The internal rate of return (IRR) for his investment is:

- (a) 7 %
- (b) 9 %
- (c) 11 %
- (d) 13 %
- (e) none of the above