

Answer on Question 75807-Economics - Microeconomics

A silver mine can be purchased for \$1,500,000. On the basis of estimated production, an annual net income of \$389,000 is foreseen for the next 15 years. After 15 years, the mine will probably be worthless. What annual IRR is in prospect?

Answer.

Internal rate of return is calculated from equation

$$NPV = \sum_{t=1}^t \frac{C_t}{(1 + IRR)^t} - C_0 = 0$$
$$IRR = \sum_{t=1}^t \frac{389}{(1 + IRR)^{15}} - 1,500 = 0$$

IRR=25%

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