

What should you pay for an investment that will give you the following end-of-year cash flows? Your required rate of return is 18%.

Year 1: \$285,000

Year 2: \$831,000

Year 3: \$716,000

Year 4: \$498,000

Answer

$$NPV = \frac{285}{1-0,18} + \frac{831}{(1-0,18)^2} + \frac{716}{(1-0,18)^3} + \frac{498}{(1-0,18)^4} = 3989,443.$$

So, to gain profit the person should pay an investment that would be less than 3989,443 \$.