

Assignment: Module 3 Homework 2

Assignment Score: 0%

Questions

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Problem 17-14
Foreign Capital Budgeting

The South Korean multinational manufacturing firm, Nam Sung Industries, is debating whether to invest in a 2-year project in the United States. The project's expected dollar cash flows consist of an initial investment of \$1 million with cash inflows of \$700,000 in Year 1 and \$600,000 in Year 2. The risk-adjusted cost of capital for this project is 10%. The current exchange rate is 1,072 won per U.S. dollar. Risk-free interest rates in the United States and S. Korea are:

	1-Year	2-Year
United States	3%	5.25%
S. Korea	2%	4.25%

- a. If this project were instead undertaken by a similar U.S.-based company with the same risk-adjusted cost of capital, what would be the net present value generated by this project? Round your answer to the nearest cent.
\$
- What would be the rate of return generated by this project? Round your answer to two decimal places.
%
- b. What is the expected forward exchange rate 1 year from now? Round your answer to two decimal places.
won per U.S. \$
- What is the expected forward exchange rate 2 years from now? Round your answer to two decimal places.
won per U.S. \$
- c. If Nam Sung undertakes the project, what is the net present value and rate of return of the project for Solitaire? Round your answers to two decimal places.
- | | |
|----------------|-----|
| NPV | won |
| Rate of return | % |

(2 remaining)

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