

Running Head: FINANCE

Net Present Value

Net present Value Analysis

The net present value method is useful to evaluate the investment decision for new projects. The calculation for the given project shows that at 14% discount rate, the present value of cash inflow on new lift will be \$3708953. The present value of cash outflow of new chairlifts is \$330000. The present value of cash flows is more than present value of cash outflow from new lift as the net present value before tax is \$ \$408,953 (See Attached Excel). The addition of new chairlift will be a profitable investment decision for the Deer Valley Lodge as it will provide positive net present value (before tax). So, the management should accept this investment proposal.

In the second option, the calculation shows that at discount rate of 8%, the present value of cash inflow after tax and before depreciation on this investment will be \$4,230,745. The net present value after tax on this investment will be \$930745 that is a positive value (See Attached Excel). So, the management of Deer valley should accept this investment decision as it will cause an increase in revenue of the company.

Effect of Subjective Factor on Investment Decision

The subjective factors may affect the investment decision of a company because of risk involvement. The subjective factors are assessment of probability for returns and revenues from a project (Hargitay & Yu, 1993). The information related to future plays an important role in the assessment of probability for a project. In this problem, all the subjective factors can that can affect the investment decision of Deer Valley Lodge are as followed –

- The uncertainty in weather may affect the quantity of the persons who used the new chairlifts.

- The assumption of the management related to the future cash flows on sales of all tickets may not be realistic.
- The cost of the tickets also is different due to competition that may affect the annual revenue of the company.

According to the net present value this proposal will be beneficial for the company but at the same time, subjective factors should also be considered in investment decision making.

Reference

Hargitay, S.E & Yu, S.M. (1993). *Property investment decisions: a quantitative approach*.

Taylor & Francis.