ADDIS COLLEGE

COTM 6301: Construction Economics and Financial Management

First Semester 2019/20 (2012 E.C) Date April…. 2020

Group 5 Final Examination

Note: ***Exam is Open book***

Attempt all questions

Date of Submission ……

1. A Hollow block machine is considered to be purchased at a cost of 35,000 Birr and has an estimated useful life of 5 years. The company considering to buy this machine estimates it will make a yearly profit of 5600 Birr. At the end of its useful life it may be sold for a salvage value of birr 6000. Should the company buy it at an interest rate of 12 %?
2. A cash flow series shows the following payments. $5000 the first year, $5500 the second year, and $6000 the third year,
    a. What type of cash flow pattern is this?
    b. What is the equivalent present value of the series of payments? The interest rate is 8%, compounded annually
3. What series of equal annual payments is economically equivalent to the investment of a present amount of $5000 for 5 years at 12%, compounded annually?
4. Explain the statement "***a firm's net working capital as a measure of its liquidity position***" what is meant by this? How are liquidity and working capital linked? Relate your answers in relation to a construction company

5. A building contractor is considering to purchase a new construction lift at a cost of 50 000 Birr, the life time of the machine is estimated to be 10-years. At the end of its life it will be sold for a salvage value equal to 10% of its original cost. Determine the capital recovery, based upon an interest rate of 8'/0 per year, compounded annually.

6. Define the concept of ***Marginal Revenue*** and ***Marginal Cost***. Relate your definitions in relation to an activity of a construction company.