NPV – example

Evaluate the concept of a new product where:

- The phases of industrial design lasts for 2 years, with costs = 1000 each year
- One year is necessary to set up the production plant, with investments = 5000 (depreciation in 10 years)
- The expected life of the new product is 4 years
- Tax rate is 45%, discount rate is 7%, risk free rate is 2%
- Price and sales volume may have the following values, with the following probabilities

price	Probability	sales	Probability
16	0.3	120	0.25
20	0.5	180	0.45
26	0.2	230	0.30

- Variable production costs are 8/unit
- Price and sales volume are independent each other