Rate of Return Analysis
In-Class Lab

Lab 1: Determining ROR

You are interested in pursuing an investment in which you have estimated the following end of year cash flows.

Year	Net Cash Flow
0	$10,000
1	-$8,000
2	-$12,000
3	$1,000
4	-$6,000
5	$10,000

Knowing that the present worth of this cash flow is:

PW = $-10,000 + $8000(P/F,i,1) + $4000(P/F,i,2) - $3000(P/F,i,3) + $8000(P/F,i,4) - $1000(P/F,i,5)

Plot PW as a function of i for $-40\% \leq i \leq 100\%$ in increments of 5%.

Question 1: From the plot, estimate the RORs for this cash flow.

Question 2: Using Excel's IRR function with an initial guess of 10%, what is the ROR?

Question 3: Using Excel's IRR function with an initial guess of -10%, what is the ROR?

Lab 2: Multiple Rates of Return

Use Excel to solve the case study on page 226 of your textbook. Note that you are comparing all life estimates for the 2 servers in the problem.