

Profitability Index and Capital Rationing

Project	Investment	PV of CFs	P.I.	NPV
A	-1000	1700	1.7	7000
B	-2000	2500	1.25	500
C	-3000	5000	1.67	2000
D	-4000	6000	1.50	2000
E	-5000	7000	1.44	2200
TOTAL	-15000			

What if you're only restricted to investing \$8000? Which projects should you take?

Modified Internal Rate of Return

Time	Cash Flows
0	-90,000
1	132,000
2	100,000
3	-150,000

required rate of return is 15%