#1-63A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: An analyst is developing Net Present Value (NPV) profiles for two investment projects. The only difference between the two projects is that Project 1 is expected to receive larger cash flows early in the life of the project, while Project 2 is expected to receive larger cash flows late in the life of the project.

The slope of the NPV profile for Project 1 when compared to the slope of the NPV profile for Project 2 is most likely:

CORRECT ANSWER:

ⓑ **flatter.**

A delay in the receipt of cash flows (as in Project 2) will make a project's net present value more sensitive to changes in the discount rate; the increased sensitivity is illustrated by a steeper slope in the net present value profile.

CFA Society Hong Kong
Candidate Services

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Date of issue:
1 Jan 2024