

I-24.05

Alpine Meadow Ski Resort is considering installing a giant snow-like carpet on a ski run. This surface would enable summer-season skiing, and generate additional net revenues (before considering the cost of the carpet or income taxes) of \$1,000,000 per year. The company estimates that the carpet would have a 5-year life and no salvage value. The company is subject to a 35% tax rate. The carpet costs \$3,500,000 to purchase and install, and is to be depreciated by the straight-line method. You may assume the initial investment occurs at the beginning of Year 1, and the annual cash flows occur at the end of each year. Assuming a 7% rate of return, does the investment have a positive after-tax net present value?