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TEACHING NOTE

SIMULATIONS

FINANCE SIMULATION: CAPITAL BUDGETING

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FORMAT: Web Based HTML

List Price: $45.00

Publication Date: Dec 1, 2010 **Product #:** 3357-HTM-ENG

Discipline: Finance **Length:** 90:00 min, English Web Based HTML

Revision Date: Jun 23, 2011

DESCRIPTION

Description

Topics Covered Include: Capital Budgeting, Discounted Cash Flows, Project Risk, Net Present Value, Payback Period, Project Finance, Discount Rate, Resource Allocation, Internal Rate of Return, and Capital Rationing

In this single-player simulation, students act as members of the Capital Committee of New Heritage Doll Company, tasked with selecting and allocating capital across the company's three divisions. Students evaluate a diverse set of competing investment proposals and make decisions regarding 27 separate proposals over a five-year period. Students confront a range of project types including replacement investments, expansion investments, investments in mutually exclusive projects, interdependent projects, and projects with growth options. To evaluate them, students examine outlays, cash flow patterns, and common metrics such as NPV, IRR, and Payback, with or without capital constraints. This simulation is appropriate for introductory Finance courses as well as specialized courses in Project Finance, Capital Budgeting, Advanced Corporate Finance, and Accounting. May be appropriate for Strategy and General Management courses in which the topic of resource allocation is explored. This simulation can be used in advanced undergraduate, MBA, and executive education programs.

Learning objective:

1.) Explore the problem of resource allocation within a corporation by looking at many projects from the senior-management perspective. This simulation is a useful complement to capital-budgeting cases that focus on single projects. ? Illustrate the impact of capital rationing on capital investment choices. 2.) Exercise and interpret the implication of tools of investment analysis (NPV, IRR, Payback & Profitability Index) 3.) Adjust for risk differences among projects through the use of risk-adjusted discount rates 4.) Understand how capital budgeting rules significantly influence company performance and market position

Subjects Covered:

Capital budgeting; Present value; Project finance; Resource management; Risk

Setting:

- Geographic: United States
- Industry: Media & telecommunications
- Industry: Toys

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