



NATIONAL OPEN UNIVERSITY OF NIGERIA
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
2020_2 EXAMINATION

COURSE TITLE: PROJECT EVALUATION

COURSE CODE: ECO 329

UNITS: 3 UNITS

TIME ALLOWED: 3 HOURS

INSTRUCTION: ATTEMPT QUESTION ONE (1) AND ANY OTHER THREE (3) QUESTIONS

1a. Discuss the following methods of project evaluation:

- i. Payback period **(2 marks)**
- ii. Accounting rate of return **(2 marks)**
- iii. Internal rate of return **(2 marks)**
- iv. Net present value **(2 marks)**

b.

- i. A project requires a cash outlay of ₦450,000 and yields an annual cash inflow of ₦75,000 for a period of 15 years; calculate the payback period. **(1 mark)**
- ii. A project costs ₦80,000 and has a scrap value of ₦35,000. The stream of income before depreciation and taxes are ₦35,000, ₦45,000 and ₦55,000 for the first three years. The tax rate is 40% and depreciation is on straight line basis. Calculate the accounting rate of return for the project. **(4 marks)**
- iii. Calculate the net present value of a project which cost ₦700,000. But generates cash inflows of ₦180,000, ₦400,000 and ₦450,000 respectively over a three year period. The required rate of return is 15%. **(6 marks)**
- iv. A barber's shop costs ₦40,800 to establish and is expected to generate cash inflows of ₦18,000, ₦13,000 and ₦10,000 over its life of three years. Calculate the internal rate of return. **(6 marks)**.

2a. Describe a project **(1 mark)**

- b. What are the characteristics of a project? **(5 marks)**
- c. Outline the stages of project selection. **(5 marks)**
- d. Distinguish between the traditional project evaluation methods and the discounted cashflow methods **(4 marks)**

- 3a. What is market analysis? **(2 marks)**
- b. Outline the importance of market analysis **(10 marks)**
- c. What are the factors of market analysis? **(3 marks)**
- 4a Discuss five (5) classifications of projects **(10 marks)**
- b. Distinguish between a project and a programme **(5 marks)**
- 5a. Describe a project life cycle **(2.5 marks)**
- b. Highlight the sequences in a project cycle **(12.5 marks)**
- 6a. Identify cases of market failures in project evaluation. **(12.5 marks)**
- b. How can the cases be remedied? **(2.5 marks)**