

Solution 1.29

Vebco Water and Gas received a contract for a seawater desalination plant wherein the company expected to make a 28% rate of return on its investment. (a) If Vebco invested \$8 million the first year, what was the amount of its profit in that year? (b) What amount would have to be invested to realize the same monetary amount of return if the rate decreases to 15% per year?

Solution:

$$\begin{aligned}\text{(a) Profit} &= 8,000,000 \times 0.28 \\ &= \$2,240,000\end{aligned}$$

$$\begin{aligned}\text{(b) Investment} &= 2,240,000 / 0.15 \\ &= \$14,933,333\end{aligned}$$