Case 37

Brown's Nursery (Part B)

Jo Brown realizes that her initial analysis of the nursery addition in Brown's Nursery (Part A) ignored inflation. She has asked you to reevaluate the project with the following modifications:

1. General inflation for the next five years is expected to average 3% per year.
2. Her contract is fixed—i.e., the income from sales is in actual (or Year_t) dollars.
3. The land is expected to appreciate 5% per year.
4. The salvage value is stated in constant-value (Year_0) dollars.
5. The working capital needs will pace inflation.
6. Variable costs will pace inflation (as will the annual savings).
7. Overhead costs will inflate 1% less than inflation.
8. Jo's MARR is a market rate.

Is the project viable when inflation is included in the analysis?