

MIT SLOAN SCHOOL OF MANAGEMENT

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15.415 C&D
Spring 1999

Assignment 8: Capital Budgeting

Due: April 29 (Thursday)

Capital Budgeting Case. Read the HBS case, “Acid rain: The Southern Company (A),” that is included the Readings Package. Answer the following questions.

1. Compare Option 1 (burn without scrubbers) to Option 2 (install scrubbers). In doing so, assume that in Option 2, the scrubbers are installed promptly— that is, so as to be operational by 1995. Which option is lower cost to Southern Co.?
2. What about the possibility of delaying the scrubber installation for 5 years, as described in the case. Does this make the scrubbers look more or less attractive? Why?
3. What would you recommend the Southern Company do? Are there any other factors that are missing from your numerical analysis that ought to be considered?
4. Is it in the public’s interest to foster the development of a market for pollution allowances.

Note: You can ignore Option 3—low sulfur coal—throughout your analysis.