Assume the expected future inflation in France is three percent and in Mexico, it is seven percent. The euro cost of capital is eight percent.

Compute the NPV of Ariel-Mexico's recycling equipment in pesos by discounting the incremental peso cash flows at the peso discount rate. Translate this NPV into euros.

Compute the NPV in euros by converting the future incremental peso cash flows into euros at the expected future

spot exchange rates.

Compare these two NPV calculations.

Suppose expected future inflation in Mexico is now three percent.

Re-compute the NPV in pesos and in euros.

Is this what you expected to find?

Please upload the spreadsheet when you're done.