

## CONTENT

	Page
1. Brief Review of Engineering Management and the Role of Engineering Economy	1
1.1 Introduction	1
1.2 A Brief History of Engineering Management in the United States	3
1.3 The Engineer in Transition to Management	4
1.4 Types of Candidates for Engineering Management	5
1.5 The Functions of Engineering Management	6
1.6 The Art of Motivation	7
1.7 The Art of Leadership	9
1.8 The Required Managerial Skills	10
1.9 The Role of Engineering Economy	11
2. Cost Concepts and Managerial Accounting	15
2.1 Introduction	15
2.2 Cost Concepts and Terminology	15
2.3 Brief Review of Accounting Principles	17
2.4 Balance Sheet	18
2.5 Income Statement	20
2.6 Cash Flow Generation and Application	21
2.7 Cost Accounting	23
2.8 Ratio Analysis of the Financial Position of a Firm	23
2.9 Liquidity Ratios	26
2.10 Debt Ratios	28
2.11 Profitability Ratios	29
Problems	34
3. Interest and Interest Formulas	37
3.1 Time Value of money	37
3.2 Interest Calculations	38
3.3 Cash Flow Diagram	39
3.4 Discrete Compound Interest Formulas	41
3.5 Uniform-Series Compound Amount Factor (Finding F, Given A)	49
3.6 Uniform-Series Sinking-Fund Factor (Finding A, Given F)	53
3.7 Uniform-Series Present Worth Factor (Finding A, Given A)	54
3.8 Uniform-Series Capital Recovery Factor (Finding A, Given P)	56
3.9 The Levelizing Process of a Non-Uniform-Series Cash Flow	61
3.10 Summary of Discrete Compounding Interest Factors	63
3.11 Arithmetic Gradient Series	64
3.12 Relationships among compound Interest Factors	71
3.13 Geometric Gradient Series	75
3.14 Limits of Compound Interest Factors	81
Problems	83
4. Continuous Compounding and Continuous Interest Factors	87
4.1 Nominal and Effective Interest Rates	87
4.2 Continuous Compounding	92
4.3 Continuous Compounding Interest Formulas	93
Problems	106
5. Comparison of Investment Alternatives	109
5.1 Decision-Making Process	109
5.2 Types of Investment Alternatives	111
5.3 The Minimum Attractive Rate of Return	112

5.4	Selection of Proper Study Period	114
5.5	Methods for Comparing Investment Alternatives	117
5.6	Present Worth Method	117
5.7	Infinite Study Period – Capitalized Worth Method	123
5.8	Annual Worth Method	126
5.9	Capital Recovery Calculations	127
5.10	Future Worth Method	134
5.11	Payback Period Analysis	140
5.12	Valuation of Bonds	142
5.13	Valuation of Stocks	143
5.14	Life-Cycle Cost Comparisons	144
	Problems	149
6.	Rate of Return and Incremental Analysis	158
6.1	Introduction	158
6.2	Rate of Return Method	159
6.3	Choosing the ROR Before a Trial-and-Error Calculation	164
6.4	Evaluation of Investment Projects with Multiple Rates of Return	166
6.5	Incremental Rate of Return Analysis	168
6.6	Incremental Rate of Return Analysis Using Smith’s Network Diagram Method	171
6.7	Some Comments on Criteria for Ranking projects	174
	Problems	178
7.	Breakeven and Sensitivity Analyses	184
7.1	Introduction	184
7.2	Some Comments on the Use of Breakeven Analysis	187
7.3	Some of the Possible Application Areas of the Breakeven Method	188
7.4	Improved Breakeven Analysis	189
7.5	Some Comments on Breakeven Point Problems in Production	189
7.6	Analysis of Make-or-Buy Decisions	193
7.7	Analysis of Lease-or-Buy Decisions	194
7.8	Profit Margin and Concept of Dumping	195
7.9	Utilization of Capacity	196
7.10	Sensitivity Analysis	197
	Problems	198
8.	Depreciation and Depletion	201
8.1	Introduction	201
8.2	Depreciation Accounting	202
8.3	Depreciation Calculation Fundamentals	203
8.4	Depreciation methods	204
8.5	Straight-Line Method	204
8.6	Sum-of-Years’ Digits Method	208
8.7	Declining-Balance Method	210
8.8	Sinking-Fund Method	214
8.9	Comparison of Depreciation Methods	217
8.10	Units of Production Method	218
8.11	Accelerated Cost Recovery System Method	218
8.12	Recapture Provisions of the ACRS Method	224
8.13	Tax Reform Act of 1986	227
8.14	Depletion	231
8.15	Depreciation of Group Properties	232
	Problems	233
9.	Income Tax Considerations	237
9.1	Introduction	237
9.2	Types of Taxes	238
9.3	The Tax Reform Act of 1986	239
9.4	Individual Federal Income Tax	239
9.5	Corporation Federal Income Tax	242

9.6	Income Tax Rates for Corporations	244
9.7	After-Tax Cash Flow	245
9.8	Combined Federal and State Income Taxes	248
	Problems	252
10.	Replacement Analysis	256
10.1	Introduction	256
10.2	Reasons for Replacement	257
10.3	Optimum Economic Life	259
10.4	The Concept of Defender Versus Challenger	261
10.5	Sunk Cost	264
10.6	Outsider Viewpoint	265
10.7	Replacement by Leasing	265
10.8	After-Tax Replacement Analysis	268
10.9	Retirement Patterns for Group Properties	273
	Problems	281
11.	Inflation and Deflation	284
11.1	Introduction	284
11.2	Inflation and Interest Rates	285
11.3	Inflation and Price Indexes	286
11.4	Effects of Inflation on Debtors and Creditors	288
11.5	The Methods for Taking into account Inflation or Deflation	288
11.6	Inflation and Combined Interest – Inflation Rate	289
11.7	Deflation and Combined Interest – Deflation Rate	290
11.8	The Effects of Inflation on After-Tax Calculations	293
11.9	Present Worth of Escalating Series	295
11.10	Some Further Notes on Inflation	297
	Problems	299
12.	Economic Analysis of Projects in the Public Sector	301
12.1	Introduction	301
12.2	The Role of Point of View in Public Projects	302
12.3	Financing of Public Projects	303
12.4	The Interest Rate Selection for Public Projects	304
12.5	Benefit – Cost Ratio Analysis	304
12.6	B/C Analysis for Multiple Alternatives	307
12.7	Some Comments on the B/C Ratio Analysis	309
12.8	Multipurpose Public Projects	309
12.9	A Systematic Procedure for Comparison of Multiple Alternatives	310
12.10	Cost-Effectiveness Analysis	310
12.11	Public Utilities	310
	Problems	314
13.	Economic Decision Making under Risk and Uncertainty	316
13.1	Introduction	316
13.2	Brief Review of Basic Probability Theory	317
13.3	Expected Value and Variance	320
13.4	Brief Review of Probability Distributions	325
13.5	Sensitivity Analysis under the Conditions of Uncertainty	337
13.6	Monte Carlo Simulation	338
13.7	Decision Tree Analysis	343
13.8	Decision making under Complete Uncertainty	345
13.9	Solution Methods for Multiple Objectives and Criteria	350
	Problems	350
14.	Capital Budgeting Considerations	355
14.1	Introduction	355
14.2	Types of Investment Projects	356
14.3	Capital Rationing	357

14.4	Effects of Capital Budgeting	360
14.5	Factors Affecting Capital Budgeting	365
14.6	Capital Budgeting under Risk and Uncertainty	366
	Risk and Uncertain	366
	Problems	367
Appendix A	Interest Tables	371
Appendix B	Computer-Aided Capital Expenditure Analyses	413
Appendix C	Examples of Computer Applications	418
Appendix D	Statistical Tables	435
Appendix E	Glossary	440
References		446
Index		451