

**SLOAN SCHOOL OF MANAGEMENT  
MASSACHUSETTS INSTITUTE OF TECHNOLOGY**

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15.414

Financial Management  
Summer 2003

**Assignment 2 – Due Monday, July 28**

**Read ‘Acid rain: The Southern Company (A)’ and answer the following questions.**

1. Based on management forecasts, evaluate Southern Company’s alternatives for complying with the Clean Air Act. How costly is each alternative? Which alternative is best?
2. Discuss, briefly, the sources of uncertainty faced by Southern Company that are relevant for your recommendation in question 1.
3. Is there additional information that would be useful in evaluating the compliance strategies? What is missing from management forecasts?
4. On page 3, the case notes ‘from an economic standpoint, it was irrelevant whether allowances were traded within the firm or externally.’ Explain (a few sentences is sufficient).

**Notes** (no written analysis is necessary)

- You may assume that all cashflows occur at the end of the year.
- The Clean Air Act allows firms to buy and sell pollution allowances. Does this make sense? Is it in the public’s interest to create a market for pollution allowances?
- The case provides detailed forecasts of coal prices and allowance prices. You should think about these forecasts. Where do the forecasts come from? What determines their prices? You do NOT need to include any written analysis, but we will discuss these issues in class.

**Guidelines**

- You may work on the case in groups of 3 or 4 students. Please hand-in one write-up per group. All members of the group should be prepared to discuss the case in class.
- State clearly any assumptions you make and provide enough information so that a reader can follow your analysis. I would expect the case write-up to be one to three pages plus supporting tables.
- Many groups will likely use Excel for the analysis. If you include a print out of the spreadsheet, please make the tables easy to follow. For example, try to fit an entire table on one page.
- The case is included in the course reading packet, which can be obtained from Copy Tech.