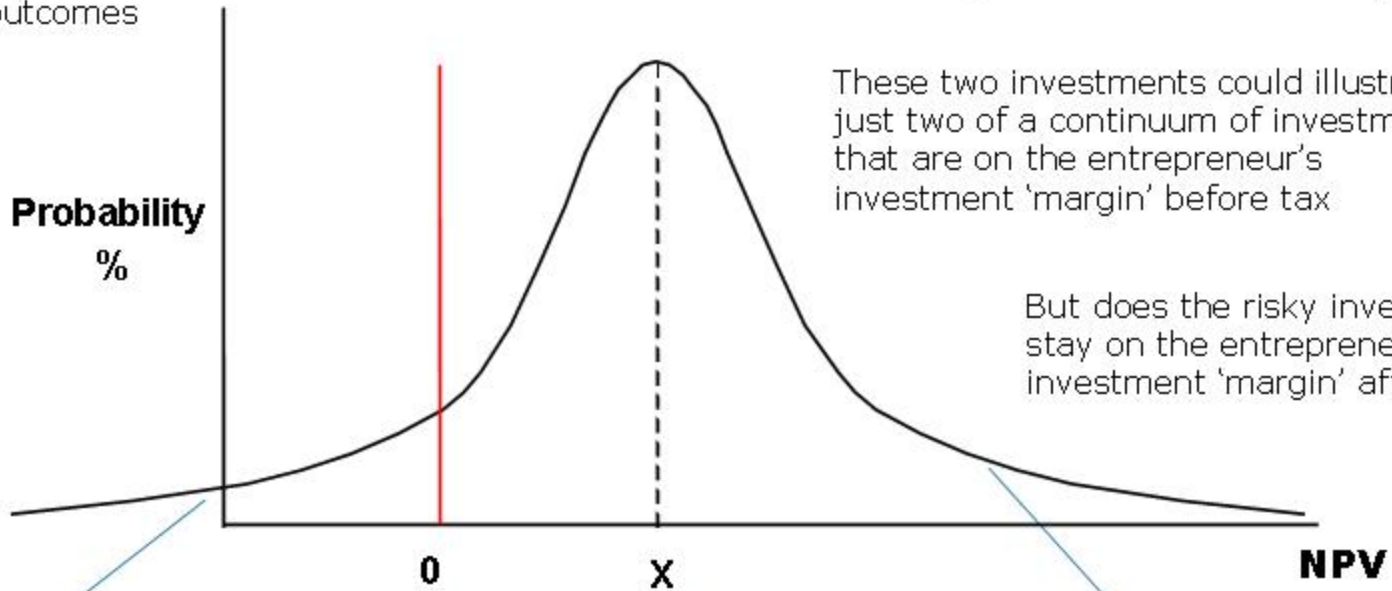


In contrast to risk-free bonds, a risky investment has a spread of possible outcomes

An entrepreneur might view 'X' expected NPV sufficient to offset the spread of possible returns to make the risky investment as attractive as the zero NPV risk-free investment

The risky investment could be viewed as 'marginal' as any lower expected NPV would make the risk-free alternative preferable



These two investments could illustrate just two of a continuum of investments that are on the entrepreneur's investment 'margin' before tax

But does the risky investment stay on the entrepreneur's investment 'margin' after tax?

Possible negative NPVs (losses) from risky investment

Zero NPV from government bonds with discounting at risk-free rate

Average (or expected) NPV from risky investment with discounting at risk-free rate

Possible above average NPVs from risky investment

Pre-tax marginal investments