What Is the Basic Comparison?

• Identify the defender and the best challenger.
  – Product.
  – Machine.
  – Process.
  – Personnel.
  – Mix.

**Decision Criteria leads to one of the following:**
If the defender is more economical, it should be retained.
If the challenger is more economical, it should be installed.
Analysis Technique # 1

Is Appropriate When Replacement Repeatability Assumptions Hold

• The best challenger is available in all subsequent years and will be unchanged in economic cost.
• The period of needed service is infinitely long.

These assumptions appear to be rather restrictive.
After Tax Replacement Analysis

• Adds expanded perspective as changes occur in:
  – Remaining economic life of defender.
  – Economic life of challenger.
  – Defender vs. Challenger comparisons.

• Affected by:
  – Depreciation MACRS.
  – Assets market value over time.