Session 10: Post class test solutions -
1. **d. Measured inflation is almost always lower than actual inflation.**
   Mistakes cuts in both directions, whereas bias creates mistakes that are more in one direction.
2. **a. 9.52%.** Real return = (1.15/1.05)-1 = .0952 or 9.52%. If you use the short cut, you will get 10%, which is almost the right answer
3. **a. $314.** Real value in 10 years = 100 *(1.08/1.02)^{20} = $314. Again, the short cut would have given you a close answer = 100*1.06^{20} = $321.
4. **a. 6.40%.** In today's dollars, the expected cash flow in year 10 = 2,500/1.03^{10} = $1,860. Real Return = (1860/1000)$^{(1/10)}$ -1 = 6.40%
5. **b. 23.33%.** In today's dollars, your uncle paid $50,000*1.04^{30} = $162,170. You paid $200,000. Percent difference = 200,000/162170-1 = 23.33%