

Session 6: Post class test solutions

1. **b. \$2.529 million.** $PV = 1000 + 1000/1.03^3 + 1000/1.05^{10} = \$2,529$
2. **c. 67.77%.** Annualized rate = $1.01^{52} - 1 = .6777$ or 67.77%
3. **b. \$75.34 million.** $PV = 8 (1 - (1/1.05^5))/0.05 + (12(1 - (1/1.05^5))/0.05)/1.05^5$.
The second annuity starts at the end of year 6, but the present value of the annuity brings it back to the start of year 6 (end of year 5).
4. **c. \$20.14 million.** $PV = 2*(1 - (1.1^{10}/1.08^{10}))/0.08 - 0.1 = \20.14 million
5. **b or c.** If your cash flows are in nominal terms (with inflation embedded in them), it is the nominal growth rate in the economy. If in real terms, it is the real growth rate.