Testing Sample

Future value (FV) of a cash flow, where r is the stated discount rate per period and t is the number of compounding periods, is as follows:

$$FV_t = PV(1+r)^t \tag{1}$$

If the number of compounding periods t is very large, that is, $t \to \infty$, we compound the initial cash flow on a continuous basis as follows:

$$FV_t = PVe^{rt} \tag{2}$$

If dividend cash flows continue to grow at g indefinitely, then we may rewrite Equation 10 as follows:

$$PV_t = \sum_{i=1}^{\infty} \frac{D_t(1+g)^i}{(1+r)^i} \tag{13}$$

Under the cash flow additivity principle, a risk-neutral investor would be indifferent between strategies 1 and 2 under the following condition:

$$FV_2 = PV_0 \times (1+r_2)^2 = PV_0 \times (1+r_1)(1+F_{1,1}) \tag{25}$$