HW 1

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1.5

a

$$\begin{aligned} A(4) &= 1000 \times (1 - 0.06 \times 4) \\ &= 1000 \times (1.24) \\ &= \$1240.00 \end{aligned}$$

b

$$\begin{aligned} A(4) &= 1000 \times (1 - 0.06 \times 4) \\ &= 1000 \times (0.76) \\ &= \$760.00 \end{aligned}$$

c

$$\begin{aligned} A(4) &= 1000 \times (1 + 0.06)^4 \\ &= 1000 \times (1.262) \\ &= \$1262.48 \end{aligned}$$

d

$$\begin{aligned} r^{(4)} &= 0.06 i(t) && = 1 + \frac{r^{(m)}}{m}^{m} - 1 \\ &= 1 + \frac{0.06}{4}^{4} - 1 \\ &= 1 + 0.015^4 - 1 \\ &= 0.0614 A(4) && = 1000 \times (1 + 0.0614)^4 \\ &= 1000 \times (1.269) \\ &= \$1268.99 \end{aligned}$$

e

$$\begin{aligned} d^{(12)} &= 0.06 i(t) && = 1 - \frac{d^{(m)}}{m}^{-m} - 1 \\ &= 1 - \frac{0.06}{12}^{-12} - 1 \\ &= 1 - 0.005^{-12} - 1 \\ &= 0.0620 A(4) && = 1000 \times (1 + 0.0620)^4 \\ &= 1000 \times (1.272) \\ &= \$1272.01 \end{aligned}$$

f

$$
\begin{aligned}
A(4) &= 1000 \times e^{\delta t} \\
&= 1000 \times e^{0.06 \times 4} \\
&= 1000 \times e^{0.24} \\
&= 1000 \times (1.271) \\
&= \$1271.25
\end{aligned}
$$

1.9

Present Value

$$
\begin{aligned}
A(0) &= \sum_{i=1}^{5} C_t \times (1+i)^{-t} \\
&= \sum_{i=1}^{5} C_t \times (1.02)^{-t} \\
&= 950 \times (1.02)^{0} + 800 \times (1.02)^{-1} + 150 \times (1.02)^{-2} + 400 \times (1.02)^{-3} + 120 \times (1.02)^{-4} \\
&= 950 \times 1 + 800 \times 0.9804 + 150 \times 0.9612 + 400 \times 0.9423 + 120 \times 0.9239 \\
&= 950 + 784.314 + 144.175 + 376.9289 + 110.8615 \\
&= \$2366.28
\end{aligned}
$$

A(5)

To calculate the value in 5 years, we could begin as above, and discount each cash flow either forward or backward to $t = 5$ rather thatn $t = 0$. However, it is equivalent to simply accumulate the sum as a whole.

$$
\begin{aligned}
A(5) &= A(0) \times 1.02^{5} \\
&= \$2366.28 \times 1.10408 \\
&= \$2612.56
\end{aligned}
$$