REVIEW OF BASIC CONCEPTS
PART 4

WHAT WILL YOU LEARN?

▶ How do value perpetuities?

▶ Growing annuities and perpetuities?

PERPETUITY

▸ Perpetuity is a series of equal payments of a fixed amount for an infinite number of periods.

PERPETUITY EXAMPLE

▸ How much would you pay for the opportunity to get paid $1000 per year forever, if the interest rate is 10% per year?

GROWING ANNUITY

▸ Let's think back to annuities.

▸ What if the fixed payments grow at a constant rate?

▸ For example, suppose you estimated your salary will start at $90K and will grow at 5% per year for the next five years. What is the present value of your future salary if the interest rate is 8% per year?

SUMMARY

▸ Valuing perpetuities
▸ Valuing growing perpetuities and annuities