

Problem 1

Saturday, January 23, 2021 12:08 PM



What is the present value of the payments in the table? Time is measured with the present being 0. Assume the riskless annual rate of return is 2.5%.

Time	1	2	3	4	5
Value	-50	-50	-100	-200	500

$$\begin{aligned} V &= -50/(1.025) + -50/1.025^2 + -100/1.025^3 + -200/1.025^4 + 500/1.025^5 \\ &= -48.78 - 47.59 - 92.85 - 181.19 + 441.92 \\ &= 71.505 \end{aligned}$$