

## **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