You will receive an annuity of $200 every 6 month over the next 10 years. The first payment occurs today. The annual interest rate is 5%. What is the present value of this contract (after rounding)?

- 1744
- 3317
- 2692
- 3117

Correction:

$$PV = 200 + 200 \left(\frac{1}{2.5\%} - \frac{1}{2.5\% \times (1 + 2.5\%)^{20}} \right) = 3317$$

Consider a two-year, 5% annually paid coupon bond with face value $1,000. The one-year interest rate, $r_{0,1}$, is 6%. The two-year interest rate, $r_{0,2}$, is 10%. What is the bond's value (after rounding)?

- 915
- 1002
- 874
- 956

Correction:

$$PV = \frac{50}{1 + 0.06} + \frac{1050}{(1 + 0.1)^2} = 915$$

Consider a stock. Assume that you know the required rate on equity. Under which assumption(s) can you use the Gordon growth model of valuation?

- You do not know when the stock will start paying dividends, if ever.
- The company pays the same amount of dividends every year.
- The company pays dividends which are growing each year, at a rate which changes each year.
- The company pays dividends which are growing each year at a constant rate.

Correction : 2 and 4