PA 5431/HRIR 5655: Public Policies on Work and Pay

Fall 2020

Due September 22nd 2020

**Homework 1**

George Jones lives for two periods. If he does not become educated he will earn $900 at the *end* of period 1 and $850 at the *end* of period 2. If he does become educated, he will earn $600 in the *end* of period 1 and will have to borrow $11,000 to pay for tuition and books at the *beginning* of period 1. But, he will earn $13,000 at the *end* of period 2.[[1]](#footnote-1) If the risk adjusted rate of interest is 3% per period:

1. Should George borrow to make the investment in his education based solely on the economic returns to schooling?
2. What is the positive internal rate of return on this investment?

1. No one lives more than two periods, and there is no chance of dying before the end of period 2. [↑](#footnote-ref-1)