

HW1, Part II (due April 8)

- (1) Suppose you can borrow money at annual rate of 8% but can save money at annual rate of only 5%. Consider an investment opportunity with the following cash flow (the initial capital/payment is included)

$-1000, 900, 800, -1200, 700.$

Should you invest?

- (2) Consider two cash flow streams

$100, 140, 131$ and $90, 160, 120$

Is it possible to tell which cash flow stream is preferable without knowing the interest rate? (Hint: (3) of Part I).