39. Question 38 follow-up— If you would like an annual return of 6.5%, how much would you be willing to pay? What happens to the value of these cash flows? Increases in value, $982.85

\[
PMT = 60 \\
FV = 1000 \\
N = 4 \\
I = 6.5 \\
PV \approx X
\]

40. You anticipate graduating in 4 years. Your parents have promised you a graduation gift of $10,000 four years from now. Alternatively, you can take $2,000 per year (end of year) for the next four years. Assuming a 9% discount rate, which alternative would you choose?

Hint: Compare Present Values (PVs) of $7,084.25 and $6,479.44

\[
\begin{align*}
FV &= 1000 \\
N &= 4 \\
I &= 9 \\
PV &= X
\end{align*}
\]

OR

\[
\begin{align*}
PMT &= 2000 \\
N &= 4 \\
I &= 9 \\
FV &= 9146.26 \leq 10,000
\end{align*}
\]

41. Solve question 40 using Future Value analysis. Would your answer change?

Hint: Compare Future Values (FVs) of $9,146.26 with $10,000

42. Today, January 1, 2003, you are thinking of buying the ice cream kiosk on the corner of Elm and Main for $30,000. Your required rate of return is 10 percent. At the end of year 3, the equipment will be obsolete (no value) and the city's laws are changing—kiosks will be banned. Your projected annual net cash inflows from the investment are:

- January 1, 2004: $8,000
- January 1, 2005: $15,000
- January 1, 2006: $18,000

Should you make this investment? Yes, positive PV of $3,193.09

43. Ten years ago you bought shares of Ford Motor Company at $100 and today you sold the shares for $236.74. What was your annual rate of return (assume no dividends, no commissions)? 9%

\[
\begin{align*}
PV &= -100 \\
FV &= 236.74 \\
I &= ? \\
N &= 10
\end{align*}
\]