63. An investment pays $5,000 per year at the beginning of each year for the next 4 years and then $3,000 per year at the beginning of each year for the next 6 years. Using a discount rate of 8\%, what is the PV of these payments?

Solution: $28,894

64. You contribute $5,000 at the end of every year to your retirement plan. You estimate that you will maintain a 7.5\% return. If you have 30 years until retirement, how much will you have in your fund at retirement?

Solution: $516,997.02

65. You are about to open up a savings account. Which account will provide you the greatest return? That is, which will give you the greatest effective or true annual rate (EAR)?

a) 4\% compounded annually

b) 3\% compounded semiannually

c) 4\% compounded quarterly

Nominal (Stated) Annual Rate Versus Effective Annual Rate (EAR) Problems

Note: EAR= Annual Percentage Rate (APR) for loans and Annual Percentage Yield (APY) for savings