
In class exercise – Notes #3

1. You expect to receive \$5,000 in five years from today. The bank offers you a loan with only one payment five years from today. If the bank's loan charges 10% annual interest rate, how much money can you borrow against the future payment of \$5,000?

2. The appliances store offers a fridge for \$1,000 paid in one year from today. You can alternatively pay for the fridge in cash and save \$100. What is the implied annual interest rate?

3. Your bank offers two different saving accounts for two years with no exits allowed:
 - First year interest=20% and second year interest=5%.
 - First year interest=5% and second year interest=20%.

Which program (if any) is better?