In class exercise – Notes #4

1. You are hired in a company as a financial advisor. The firm has $2.5 million in a special fund. You are asked to propose a plan that will generate cash flows for multiple periods from that fund. You are told that the annual interest rate is 6%.
   a. If you are asked to create a perpetuity, what should be the annual cash withdrawal from the fund?

   b. What is the balance of the fund after 6 years?

   c. If instead of the perpetuity, you are asked to create a 20-year annuity. What is the annual withdrawal from the fund?

   d. What is the balance of the fund after 6 years?

   e. If the first withdrawal from the fund will be in two years from today (not one year from today), and what is the annual withdrawal from the 20-year annuity (the last withdrawal will be in 21 years from today)?