**Week 6 Homework Questions**

Fill in the blank

1. An annuity in which the cash flows occur at the beginning of each period is known as an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. An annuity in which the cash flows occur at the end of each period is known as an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
3. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is an annual interest rate per period times the number of periods in a year.
4. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is an interest rate that reflects annualizing with compounding figured in.

Short Answer

1. Why is it important for business managers to be familiar with the time value of money concepts?
2. Why do we say money has time value?
3. What is an amortization schedule?

Calculations

1. What is the present value of $20,000 to be received in 6 years? Your required rate of return is 8% per year.

1. If you invest $2,000 a year for 20 years at 5% annual interest, how much will you have at the end of the 20th year?
2. If you buy a 5 year, 3% CD for $8,000. How much is it worth at maturity?
3. How much would you be willing to pay today for an investment that pays $1,000 per year at the end of the next 10 years? Your required rate of return is 5% per year.