

## Review Questions: Annuities and Perpetuities

1. You decide that you would like to fund a scholarship at the WSU Business School for young, aspiring finance students. You want the scholarship to start paying \$15,000 per year starting 5 years from today and lasting forever. How much do you have to invest today, assuming a 7% discount rate?
  
  
  
  
  
  
  
  
  
  
2. You feel lucky and decide to play the Washington State LOTTO. The jackpot is at \$50 million. You have 2 choices when you buy your ticket:
  - 1) Receive \$13.75 million (after taxes) in a lump sum immediately if you win.
  - 2) Receive 25 payments of \$1.2 million per year (after taxes), starting immediately if you win.

Your discount rate is 8%, compounded quarterly. Which option should you choose?