If a question asks "why/explain", you should give a full explanation that would convince a skeptic.

Name: _____
(also write your name on the back)

Finance 325: Quiz #1

September 16, 2010

1. What is the "Rule of 72" and how is it used? Use an example in your answer. (3 pts)

2. You are going to fund a new faculty position at the WSU Business School. The school tells you that they will want to use your gift to hire another finance faculty position in a few years. This position will be filled 4 years from today, and the salary upon hiring will be $125,000 per year (assume that the first year's salary is paid immediately upon filling the position). The salary will then increase every year by 4% APR, compounded annually. They expect to always have this position filled in the future. If your discount rate is 9% APR, compounded monthly, what is the amount that you need to give WSU today in order to fund this new position? (4 pts)

3. You have been presented with two investment opportunities:

   a. Nominal 8.5% APR, compounded annually
   b. Real 5.4% APR, compounded annually

   If inflation is 3% APR, compounded annually, then which is the better option? (3 pts)