

NAME _____

1. Last national bank offers a CD paying 12% interest (compounded annually). If you invest \$5,000 how much will you have at the end of year 13?

- a. \$17,791.54
- b. \$20,911.12
- c. \$21,817.47
- d. \$23,907.65

$$5000(1 + .12)^{13}$$

2. You want to buy a house in 5 years and expect to need \$15,000 for a down payment. If you have \$10,000 to invest, how much interest do you have to earn (compounded annually) to reach your goal?

- a. 5.0%
- b. 8.5%
- c. 7.1%
- d. 12%

$$15,000 = 10,000 \times (1 + .085)^5$$

3. You are planning your retirement and you come to the conclusion that you need to have saved \$1,000,000 in 25 years. You can invest into a retirement account that guarantees you a 6% annual return. How much do you have to put into your account at the end of each year to reach your retirement goal?

$$= \frac{1,000,000}{(1 + .06)^{25}}$$

- a. \$16,791.00
- b. \$22,911.56
- c. \$18,228.22
- d. \$19,567.32

4. Bavarian Sausage just issued a 10 year 7% coupon bond. The face value of the bond is \$1,000 and the bond makes annual coupon payments. If the required return on the bond is 10%, what is the bond's price?

- a. \$815.62
- b. \$430.08
- c. \$1000.00
- d. \$385.54

5. Bavarian Sausage just issued a 10 year 6% coupon bond. The face value of the bond is \$1,000 and the bond makes annual coupon payments. If the required return on the bond is 9%, what is the bond's price?

- a. \$1107.62
- b. \$685.54
- c. \$1000.00
- d. \$807.48

6. You are offered a zero-coupon bond with a \$1,000 face value and 3 years left to maturity. If the required return on the bond is 6%, what is the most you should pay for this bond?

- a. \$515.78
- b. \$839.62
- c. \$1000.00
- d. \$667.91