2nd Homework

December 5, 2016

1. What is the amount of regulary pension annuity paid at the end of every month. The pension plan is proposed for 14 years. You will create the budget for pension during 21 years with regulary 20-days payments. The amount of annuity is $100.00 and the anuity is paid at the beginning of period. Further, you know that a pension fund for the pension anuity will promised you an interest rate 3 % p. a. and the interest will be calculated on the monthly basis. During the process of saving you will send the money on a bank account with interest rate 2.2 % p. a. and the interest period corresponds to one year.

2. Decide which of the two following projects is better according to NPV, PB, IRR and MIRR.

Project A: Initial investment 122,000.00, free Cash flow over 3 years (40,000.00/80,000.00/50,000.00). Project B: Investment costs 45,000.00, free Cash flow over 5 years (5,000.00/14,000.00/24,000.00/37,000.00/8,000.00). The capital structure is 60 % for Equity. The cost of equity is 8.6 %, the cost of debt is 5.4 % and the tax rate is 20 %.