Finance II: Annuities Pre-Work

Overview:

This session continues the coverage of financial math with financial instruments consisting of a finite series of equal periodic payments.

1. What is the present value of an annuity in which $2,000 is paid each year for 5 years, assuming a discount rate of 5% and the first payment is received one year from now?

2. What is the present value of an annuity in which $2,000 is paid each year for 5 years, assuming a discount rate of 9% and the first payment is received one year from now? How does the value of this annuity compare to your result from the previous exercise. Why?

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