

Homework — Time Value of Money

Required questions - turn in to the TAs

Homework for Week 6. Each set belongs to the video of the same number. **One question in each set is required**; answer it and turn it in to the TAs. The rest are optional practice, and worked answers to those are published alongside the set. A full set takes about twenty minutes. Work them before the case session.

Homework • 6.1

1. You are offered KSh 100,000 today or KSh 108,000 in one year. Treasury bills yield 10% and inflation is 5.5%. Which do you take, and why?

Homework • 6.2

1. Compute the future value of KSh 250,000 invested for 7 years at 9%.

Homework • 6.3

1. A project costs KSh 800,000 today and returns KSh 250,000, KSh 300,000, KSh 300,000, and KSh 200,000 over the next four years. At a 14% discount rate, compute the NPV and state your recommendation.

Homework • 6.4

1. A commercial property produces net rent of KSh 2.4M a year, expected to grow at 4% a year indefinitely. At a 13% required return, what is it worth? Recompute at 3% growth and at 5% growth, and comment on the spread.

Homework • 6.5

1. Briefly explain why a company's equity requires a higher return than its own debt, even though both are claims on the same set of assets.

Homework • 6.6

1. Rank these from lowest to highest required rate, with one sentence of justification each: (a) a 5-year Kenyan government bond; (b) a 20-year lease to a listed supermarket chain; (c) a new hotel in a town with no existing hotels; (d) a loan to a manufacturer with 20 years of trading history.