

# Midterm #1 Financial Functions Practice #2

<p>1. You are twenty-five years old and currently have no savings. You plan to retire at age 65 years. If you start to save \$2,400 per year at age 25, how much will have been saved at retirement? Assume you will earn a 6% return on your savings.</p>	1.
<p>2. Your client has been offered two options for the settlement of a dispute with his insurance company. You must help him to choose the option with the highest present value.                  Option One: \$20,000 per year for 15 years OR                  Option Two: \$450,000 paid in a lump sum in 20 years.                  Assume an annual rate of return of 5%.</p> <p>2A. Present Value of Option One                  2B. Present Value of Option Two                  2C. Which option should the client choose?</p>	2A.
	2B.
	2C.
<p>3. You qualify for a home loan of \$300,000 at an annual interest rate of 4.8% and a loan term of 15 years. What will be your monthly payment?</p>	3.
<p>4. You are currently thirty years old and have set a savings goal of \$1,100,000 for when you reach 75 years old. You presently have savings of \$70,000 and no debt. How much must be saved each year to attain your savings goal of \$1,100,000? Assume you can earn an annual return of 6% on your savings.</p>	4.
<p>5. Two hundred bonds with a face value of \$20,000 pay \$1,400 per year and mature in 11 years. How much should an investor pay for this investment if they desire a 6% annual return?</p>	5.
<p>6. You qualify for a home loan of \$300,000 at an annual interest rate of 4.0% and a loan term of 15 years. What will be your monthly payment?</p>	6.
<p>7. Five hundred strip bonds with a face value of \$50,000 mature in 9 years. How much should an investor pay for this investment if they desire a 4.5% annual return?</p>	7.
<p>8. You and your spouse earn \$105,000 per year, and want to spend only 32% of your income on a mortgage payment. You qualify for a 30-year loan at an annual rate of 5.2%. Find how much you can borrow with these limitations.</p>	8.
<p>9. You are currently thirty years old and have set a savings goal of \$1,250,000 for when you reach 75 years old. You presently have no savings or debt. How much must be saved each year to attain your savings goal of \$1,250,000? Assume you can earn an annual return of 7% on your savings</p>	9.
<p>10. You are twenty-five years old and currently have no savings. You have only one debt, a \$55,000 student loan. You plan to retire at age 70 years. If you start to save \$4,800 per year starting at age 25, how much will have been saved at retirement? Assume you will earn a 6% return on your savings.</p>	10.