$800 \sim$

\[
2 \times 0.000 = 1 - \frac{hC \cdot r}{2(30 \cdot r)} = f
\]

\[
2 \left( \frac{C \cdot r}{1 + r} \right) = (1 + h)(1 + r)
\]

If you put all your money in a savings account, you will get the current short-term (one-year) interest rate.

2. What is the current annualized two-year interest rate?

\[
\overline{2 \cdot g} = \frac{1}{2} \left( \frac{1 + 0.08 \cdot 0.05}{0.001 \cdot 0.05} \right) = 8.1
\]

Below, let's consider time (now), time 1 year from now, and time 2 years from now.

If you put all your money in a savings account, you will get the current short-term (one-year) interest rate.

I. (40 points) You are about to finish college and are thinking about whether to continue studying or go to work. You are going to take two years to think about it, meanwhile you are going to travel around Europe working and spending whatever you earn. You are not going to be traveling around Europe working and spending when you earn. You are not going to be traveling around Europe working and spending.

Section

Time for the exam: 55 minutes
May 12, 2006

ECON 134: Midterm

Spring 2006

Econ 134, Financial Economics

Prof. Brent de Blas
\[ E(money) = \$48,000 \]

\[ \text{with probability 89%, you expect to have } \$45,000 \text{ next year.} \]

\[ \text{with probability 90%, you expect to have } \$42,000 \text{ next year.} \]

\[ \text{with probability 98%, you expect to have } \$40,000 \text{ next year.} \]

4. How much money might you have in two years if you put all your money in the savings account? Assume that each year the savings account pays the one-year prevailing interest rate of 5% and the result is not certain. Give the probability of each outcome and the expected value of the result.

5. Does the hypothesis-testing hold? Explain.
\[ \text{E} \text{ (money) } = \$1,9663 + \$8,948 = \$22,891 \]

\[ \text{Bond} = \$1,7500 \times 1,06 = \$1,8700 \]

\[ \text{Savings Account} = \$5,000 \times 1,03 = \$5,150 \]

\[ \text{Expected value of the result} \]

F. Suppose you want to diversify your portfolio. You decide to put 30% of your money on:

1. How much money would you have in two years if you put all your money into Government bonds?

Spring 2006

Enn 134: Financial Economics

Prof. Beatriz de Blas
\[ E(1) = 20,000 \times 1.05 \]
\[ = 21,000 \]

\[ E(2) = 21,000 \times 1.05 \]
\[ = 22,050 \]

\[ E(3) = 22,050 \times 1.05 \]
\[ = 23,152.50 \]

\[ E(4) = 23,152.50 \times 1.05 \]
\[ = 24,314.56 \]

\[ E(5) = 24,314.56 \times 1.05 \]
\[ = 25,532.64 \]

If you want to save $20,000 in 5 years, you can calculate the interest earned using the formula:

\[ \text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time} \]

\[ \text{Interest} = 20,000 \times 0.05 \times 5 \]
\[ = 5,000 \]

Total amount to be saved:
\[ 20,000 + 5,000 = 25,000 \]

You can save this amount by investing in bonds, stocks, or any other financial instrument that offers a higher return. The choice depends on your risk tolerance and investment horizon. 

Suppose you are planning to buy a house in 5 years. How much money do you need to save? Use the formula to calculate the accumulated amount.

\[ E(t) = \text{Principal} \times (1 + \text{Rate})^t \]

Where:
- **Principal** is the initial amount you want to save
- **Rate** is the annual interest rate
- **Time** is the number of years you plan to save

For example, if you want to save $20,000 in 5 years with a rate of 5%, the formula would be:

\[ E(5) = 20,000 \times (1 + 0.05)^5 \]
\[ = 25,532.64 \]

Therefore, you need to save approximately $25,532.64 in 5 years to reach your goal.
\[ \begin{aligned}
\text{For example, if } S &= 10.25 \text{ and } I = 6 \%, \text{ then we have:}
\frac{0.01 \cdot 9}{10.25} \cdot 0.10 + \left[ \frac{0.01 \cdot 9^2}{151.25} \cdot 0.01 \right] &= \frac{90}{10.25} \cdot 0.10 + \left[ \frac{90}{151.25} \cdot 0.01 \right] = \frac{900}{1025} + \frac{900}{15125} = 0.8784 + 0.0059 = 0.8843.
\end{aligned} \]

\[ \begin{aligned}
\text{Assume that } p \text{ still means the dividend payout ratio of } 40\% \text{ for the next } 5 \text{ years.}
\end{aligned} \]

\[ \begin{aligned}
9 = 1.0 \times 0.95 \times 1.0 \times 1.0 \times 1.0 = 0.95.
\end{aligned} \]
a. What is the NVP of this investment opportunity? For what interest rate constant with

\[
\text{NPV} = -\frac{435,000}{4,500,000} + \frac{1,025,000}{4,500,000} + \frac{-314,000}{4,500,000} = -0.7491589
\]

and without investing in the bond.

b. What is the NVP of this investment opportunity? For which interest rate constant with

\[
\text{NPV} = -\frac{435,000}{4,500,000} + \frac{1,025,000}{4,500,000} + \frac{-314,000}{4,500,000} = -0.7491589
\]

and without investing in the bond.

3. (30 points) Miguel has the opportunity to buy a lot at Forested for $160,000 which he

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3.
Null

\[ A \neq 0 \]

it approaches an use price function.

1. Should Miguel buy the land?

\[
\frac{1.07}{0.0200} \times \frac{1.9650}{0.0100} = \frac{186.915.89}{0.0200} = 9.394.15.89
\]

2. What is the maximum price Miguel is willing to pay for the land?

5. What are the other transactions are necessary to achieve this?

5. If Miguel buys the land, what is the effect on his present consumption if he keeps all future consumption unchanged?

Spring 2006

Prof. Beatriz de Biasi

Econ 134, Financial Economics