University of Toronto (Mississauga)

FINANCE

Sample Midterm

QUESTION 1:

a) First National Bank charges 10.1 percent compounded monthly on is business loans. First United Bank charges 10.4 percent compounded semiannually. As a potential borrower, to which bank would you go for a new loan that lasts for a year?

b) For 40 years you will save $10,000 at the beginning of each year towards retirement. Your first payment is today, and you expect that you make an 8% return each year (EAR), reinvesting your proceeds from previous years (plus putting in a new amount of 10,000 every year).

   i. How much money will you have saved for retirement at the end of 40 years?

   ii. If you wanted to have $3.5 million in your retirement fund, how much should you be