Your client is considering the purchase of $100,000 in common stock, which pays no dividends and will appreciate in market value by 10 percent per year. At the same time, the client is considering an opportunity to invest $100,000 in a lease obligation that will provide the annual year-end cash flows listed in the table below. Assume that each investment will be sold at the end of four years and that you are given no additional information. Calculate the present value of each of the two investments assuming a 10 percent discount rate and state which one will provide the higher return over the four year period. Use the table and show calculations.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| End of Year |  |  |  |  |
| 1 | $0.00  |  |  |  |  |
| 2 Lease receipts | 15,000 |  |  |  |  |
| 3 Lease receipts | 25,000 |  |  |  |  |
| 4 Sale proceeds | $100,000  |  |  |  |  |
|  |  |  |  |  |  |
| Present Value of $1 |  |  |  |  |
| Period |  | 6% | 8% | 10% | 12% |
| 1 |  | 0.943 | 0.926 | 0.909 | 0.893 |
| 2 |  | 0.890 | 0.857 | 0.826 | 0.797 |
| 3 |  | 0.840 | 0.794 | 0.751 | 0.712 |
| 4 |  | 0.792 | 0.735 | 0.683 | 0.636 |
| 5 |  | 0.747 | 0.681 | 0.621 | 0.567 |