Homework due week 7 (6/22/11)

Kevin has found the woman of his dreams and will marry soon. He has a bright financial future and quite impressed with what he will bring in monetary terms to the relationship. He’s presently gainfully employed and expects that his earnings power will increase substantially after he gains more work experience and completes business school.

Kevin’s fiancé is an aspiring socialite. She hopes to maintain her youthful looks for a steady schedule of social events, so tries to avoid stress at all costs. That means she intends to quit her job after they marry, and avoid the rigors of child-rearing and housework. She comes from a very wealthy family.

Knowing that he will be the sole breadwinner of the household, Kevin thinks a dowry is in order. Oddly, neither his fiancé nor her father objects. His future father-in –law is agreeable to the idea of a dowry that approximates the present value of Kevin’s likely career earnings. Using the assumptions below, how much should he request?

Assumptions:

Age: 25

No debt of financial assets

Retirement Age: 65

Years 1,2,3: Earnings = $60,000

Years 4,5: Full time business school costing $50,000 each year

Starting salary after graduate school: $120,000

Years 7-10: 5% annual earnings growth

Years 11-20: 10% annual earnings growth

Years 21–40: 3% annual earnings growth