Q5

At an inflation rate of 9 percent, the purchasing power of RM1 would be cut in half in

8.04 years. How long to the nearest year would it take the purchasing power of RM1 to

be cut in half if the inflation rate were only 4 percent?

Q6

A project with a 3-year life has the following probability distributions for its possible endof-

year cash flows in each of the next three years:

|  |  |  |
| --- | --- | --- |
| Year 1 | Year 1 | Year 1 |
| Prob | Cash Flow | Prob | Cash Flow | Prob | Cash Flow |
| 0.30 | RM300 | 0.15 | RM100 | 0.25 | RM200 |
| 0.40 | 500 | 0.35 | 200 | 0.75 | 800 |
| 0.30 | 700 | 0.35 | 600 |  |  |
|  |  | 0.15 | 900 |  |  |

Using an interest rate of 8 percent, find the expected present value of these uncertain

cash flows.

Q7

Kamel recently invested RM2,566.70 in a project that promises 12 percent rate of return

per year. The cash flows are expected to be as follows:

|  |  |
| --- | --- |
| END OF YEAR | CASH FLOW |
| 1 | RM325 |
| 2 | 400 |
| 3 | 550 |
| 4 | ? |
| 5 | 750 |
| 6 | 800 |

What is the cash flow at the end of the 4th year?