

Name _____ Per _____ A# _____

Decision Making in Finance: Present Value of an Investment

VI.B.4: Road to \$1 Million

6. Blaine wants to have \$1,000 in 10 years. The following are the choices in which he can invest:

- a savings account earning 3% compounded quarterly,
- a checking account earning 1% compounded monthly, or
- a money market account earning 4.5% compounded semiannually.

Blaine plans on making no withdrawals or deposits.

Rewrite the formula from Question 3 for present value and allow for any compounding period (n):

PV =

7. Rewrite the present-value formulas for each account that Blaine is considering. Make sure that the formulas include compounding periods other than annual and incorporate the different rates.

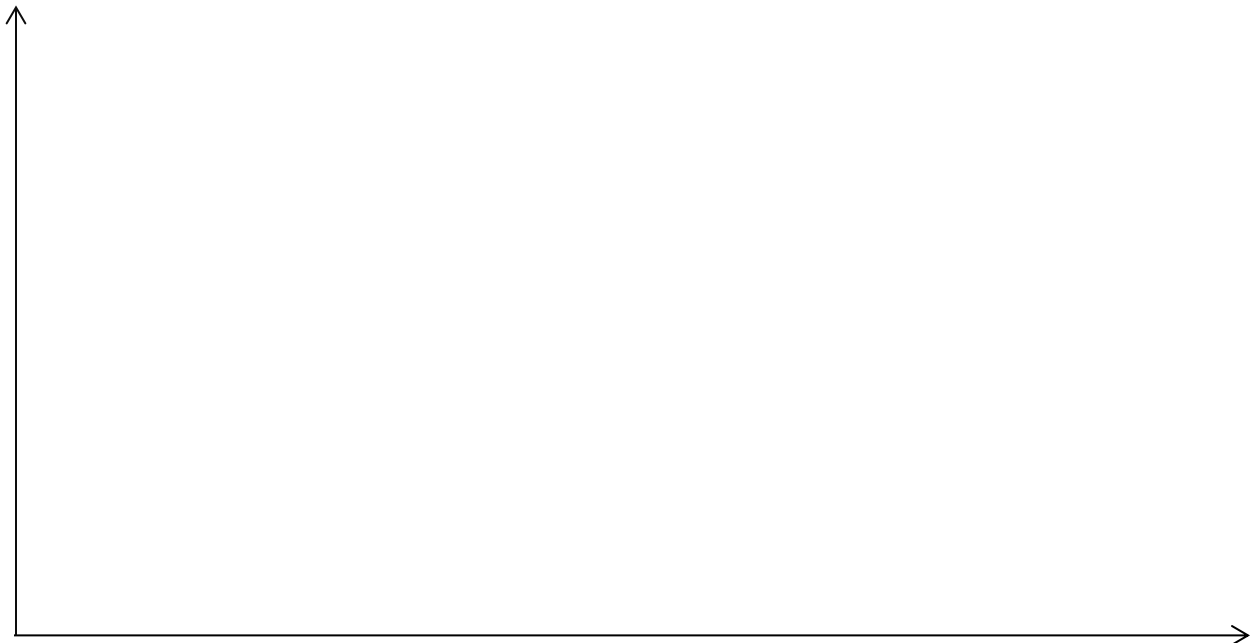
Savings:

Checking:

Money Market:

8. Graph the present-value formula for each account. Label the axes, scales, and curves, and provide titles.

Years to wait	Years Invested	Savings PV	Checking PV	Money Market PV
10				
8				
6				
4				
2				
0				



Which factor has the most significant effect on the curve: the interest rate or compounding periods? Why?

9. In which account should Blaine invest? Why?