

ADDITIONAL TIME VALUE OF MONEY PRACTICE

PROBLEM 1: Assume the total cost of college in 26 years will be \$409,633 when your first child will begin. Assuming you have \$60,880 to invest today, what rate of return will you need to earn annually to have the necessary amount to afford college, assuming you will pay the full amount on their first day of school?

PROBLEM 2: In 10 years, you plan on going to dental school. In 3 years, you plan on investing \$8,500 and earning an annual rate of 8.67%. How much will you have when you begin school?

PROBLEM 3: A wealthy client of your financial advisory firm wishes to purchase a private jet, currently priced at \$2,979,001, in exactly 15 years. You expect prices to grow at 3.07% per year. You think that you can invest this client's money to grow at 11.94% per year over this same time period. How much would you need to tell them to invest with you today to be able to afford the private jet in 15 years?

PROBLEM 4: You have just made a \$1582 contribution to your individual retirement account with American Funds. Assume you earn a rate of return of 9.44% and make no additional contributions. How much more will be in your account when you retire in 35 years than would be in the account if you waited another 5 years before making this \$1582 contribution?