

Quiz 2 - Solution

1. PV of perpetuity due $\ddot{a}_{\infty} = \frac{1}{d}$

2. The difference between the portfolio method and the yield curve method:
with the portfolio method an interest rate is attached to each time period
with the yield curve method interest rates are attached to each payment.

3. i_* is the effective interest rate of a 5-year period. It would satisfy

$$(1+i_*) = (1+0.03)^5.$$