Solutions

2.1

- $16{,}000/1.07^4 = £12{,}228$.
- $9{,}000 \times 1.07^3 = £11{,}025$.

2.2

- $6{,}000 \times (1 - 1.07^{-6})/0.07 = £28{,}665$.
- $3{,}500/0.07 = £50{,}000$.

2.3

- Effective: $1.015^{12} - 1 = 19.56\%$.
- 18% naive vs 19.56%: $£20{,}000 \times 0.0156 \approx £312$ of understated cost.

2.4

- A today: $12{,}000/1.1449 = £10{,}481$.
- B today: $5{,}000 + 8{,}000/1.225 = 5{,}000 + 6{,}531 = £11{,}531$.
- B wins by £1,050 – one line, because both sit at today. (stated across the marks)

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