1. Explain the concept of opportunity cost of capital and how it applies to PV analysis. [2 pts]

2. Inflation is expected to be 2.5% per year. You are considering an investment offering a return of 6% APR, compounded quarterly. You want to have a total real annual return of at least 3.5%. Should you make the investment? [2 pts]

3. You would like to endow a scholarship today. You want the first scholarship to be awarded 10 years from today and you would like the amount to grow by 3% each year forever. The endowment’s discount rate is 7% and you would like the first scholarship award to be $10,000. How much do you have to donate TODAY? [2pts]