Spring 2013 Final - 1:00A

P5

100 - 150: $E(T_c) = .75 \times .4 = .3$

$+12$ $\tau^* = 1 - \frac{(1-.3)(1-.15)}{(1-.35)} = .0846$ (30)

(+10 on $(1-.3)$, +4 on $(1-.15)$, +4 on $(1-.35)$)

150 - 200: $E(T_c) = .15(.4) = .06$

$+12$ $\tau^* = 1 - \frac{(1-.06)(1-.15)}{(1-.35)} = -.2292$ (30)

(+10 on $(1-.06)$, +4 on $(1-.15)$, +4 on $(1-.35)$)

$\Rightarrow$ optimal interest = 150+15