

Spring 2013 Final - 1:00 B

P5

$$200-300: E(\tau_c) = .65(.3) = .195$$

$$f(2) \left( \tau^* = 1 - \frac{(1-.195)(1-.1)}{(1-.25)} = +0.034 \text{ (30)} \right)$$

$$300-400: E(\tau_c) = .45(.3) = .135$$

$$f(2) \left( \tau^* = 1 - \frac{(1-.135)(1-.1)}{(1-.25)} = -0.038 \text{ (30)} \right)$$

$\Rightarrow$  optimal interest = 300 +15