SU 2012

Key to 9:45a
q1:15b

Problem 5

2. 100k - 250k

$E(T_c) = (.65)(.3) = .195$ +5 +5

$T^* = 1 - \frac{(1-.195)(1-.1)}{(1-.35)} = -0.1146$ +5 +5 (35)

0 - 100k +10

$E(T_c) = .3$ +5

$T^* = 1 - \frac{(1-.3)(1-.1)}{(1-.35)} = +0.0308$ +5 (35)

$\Rightarrow$ optimal interest = 100,000 +5