

SU2012

Key to 9:45 b
& 1:15a

Problems

2. 100k - 250k

$$E(T_c) = \overset{+5}{.75} (\overset{+5}{.35}) = .2625$$

$$\overset{+5}{T^*} = 1 - \frac{(1 - .2625)(1 - \overset{+5}{.15})}{(1 - \underset{+5}{.4})} = -0.0448 \quad \text{35}$$

0 - 100k

$$E(T_c) = \overset{+5}{.35} (\overset{+5}{1}) = .35$$

$$\overset{+5}{T^*} = 1 - \frac{(1 - .35)(1 - \overset{+5}{.15})}{(1 - \underset{+5}{.4})} = +0.07917 \quad \text{35}$$

⇒ optimal interest = 100,000 +5