

SU 2012

Key to 9:45 a
& 1:15 b

Problems

2. $\frac{100k - 250k}{+5}$ $\frac{+5}{+100}$

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

$$+15 \left(T^* = 1 - \frac{(1-.195)(1-.1)}{(1-.35)} = -0.1146 \right) \text{ (35)}$$

$$\frac{0 - 100k}{+10} \quad \frac{+5}{+10}$$

$$E(T_c) = .3$$

$$+15 \left(T^* = 1 - \frac{(1-.3)(1-.1)}{(1-.35)} = +0.0308 \right) \text{ (35)}$$

\Rightarrow optimal interest = 100,000 + 5