

Name:

### **Five Minute Exercise**

#### *Present Value of a Stream of Payments*

**Given:**

Contract A pays \$80 in each of years 1, 2 and 3

Contract B pays \$240 in year 2 but has no other payments

The interest rate is 100% (to keep the calculations simple)

All payments occur at the end of the year (e.g., the first payment in A is 1 year from now)

**Determine:**

The difference in the present values of the two contracts.

Answer: