Solution 1.58

The compound interest rate per year that amounts of $1000 one year ago and $1345.60 one year hence are equivalent to is closest to:

(*a*) 8.5% per year
(*b*) 10.8% per year
(*c*) 20.2% per year
(*d*) None of the above

Solution:

Move both cash flows to year 0 and solve for i

$$1000(1 + i) = 1345.60/(1 + i)$$

$$(1 + i)^2 = 1345.60/1000$$

$$(1 + i) = 1.16$$

$$i = 16\%$$

Answer is (d)