

Solution 1.32

Bull Built, a design/build engineering company that has always given year-end bonuses in the amount of \$4,000 to each of its engineers, is having cash flow problems. The president said that although Bull Built couldn't give bonuses this year, next year's bonus would be large enough to make up for this year's omission. If the interest rate is 10% per year, what is the equivalent bonus that engineers should receive next year?

Solution:

$$\begin{aligned}\text{Total bonus next year} &= (\text{this year's bonus} + \text{interest}) + \text{next year's bonus} \\ &= [4,000 + 4,000(0.10)] + 4,000 \\ &= \$8,400\end{aligned}$$