Name: Id#

ISE 307, Term 153

ENGINEERING ECONOMIC ANALYSIS

Quiz# 2

 Date: Monday, August 8, 2016

#

# **Q1.** The accompanying table shows a cash flow for a company along with CPI:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Cash | CPI | Inflation Rate |
| 0 | 100,000 | 179.8 |  |
| 1 | 115,000 | 183.8 |  |
| 2 | 128,000 | 188.0 |  |
| 3 | 145,000 | 194.6 |  |

# Assuming that year 0 is the base period, determine the inflation rate for each period, and calculate the average inflation rate over the three years.

# What will be the equivalent cash of year 1 stated in terms of year 3 cash?

# **Q2.** Suppose that you borrow $60,000 at 9% compounded monthly over five years. Knowing that the 9% represents the market interest rate, you compute the monthly payment in actual dollars as $1245.51. If the average monthly general inflation rate is expected to be 0.25%, determine the equivalent equal monthly payment series in constant dollars.

**Q3.** Consider the following two mutually exclusive projects:



At an interest rate of 25%, which project would you recommend choosing?