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	

i. 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.

ii. 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:

	Net Cash Flow	
End of Year	Project A	Project B
0	−$1,000	−$1,000
1	$912	$284
2	$684	$568
3	$456	$852
4	$228	$1,136

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