



b). $r = 0.07$

c). Proj. 1 $r = 18.4 - 18.5\%$ Proj. 2 $r = 10.6$ to 10.7%

d). Accept both projects; accept the first.

2 a). NPV will be lower

b). Higher interest rate means money drops in value in the future, and since all future payments are positive, it is worth less than before.

3) a. $EIAR = \left(1 + \frac{SAIR}{12}\right)^{12} - 1$

SAIR :	1%	2%	5%	10%	20%	30%	50%
EIAR :	1.0046%	2.02%	5.116%	10.47%	21.94	34.49%	63.21%
Interest on Interest :	.0046%	.02%	.116%	.47%	1.94	4.49	13.21%

Simple interest would be the SAIR, EIAR Has simple interest plus compounding, so the interest on interest (for one year) is the difference between the two numbers.

