

Annuity Exercise

Sidney wins a prize. She has a choice of receiving a payment of \$160,000 immediately or of receiving a deferred perpetuity with \$10,000 annual payments, the first payment occurring in exactly four years.

- a. Which has a greater present value if the calculation is based on an annual effective interest rate of 5%?
- b. How about if the annual effective interest rate used is 6%?
- c. What real life considerations should enter into Sidney's choice besides maximizing her present value?