
Practice Problem – Revision for Mid-Term Exam

1. Find the missing values using simple interest formula.

Year 2022	Year 2023	Rate
5,000	?	8%
8,000	12,000	?
10,000	?	15%

2. Maryam received a personal loan of BD 5,000 for 4 years from NBB. If she paid BD 500 as interest, what is the rate of interest?

3. Your father plans to deposit BD 10,000 for 5 years in Ahli United Bank. The bank promises 7% interest compounded semi-annually. After 5 years, what will happen to BD 10,000?

4. You have won a lottery prize of BD 100,000. You are approached by two different banks to get your prize money deposited with them. NBB promises 3% interest compounded quarterly and Al-Salam Bank offers 4% interest compounded monthly. Which bank you would prefer to deposit your prize money?

5. You are planning to financially support your brother who is studying in school. You plan to provide him BD 2000 every year for the next 5 years. How much money you need to deposit today assuming 7% compounded interest annually?

6. Mona has an opportunity to receive BD 3000 three years from now. If she can earn 4% on her investments, what is the most she should pay now for this opportunity?

7. Maria wants to buy a house but does not want to get a loan. The price of her dream house is \$500,000 and its price is growing at 5 percent per year. How much should Maria invest in a project at the end of each year for the next 5 years in order to accumulate enough money to buy her dream house with cash at the end of the fifth year? Assume the project pays 12 percent rate of return.

8. What is the present value of \$100 received at the end of year 1, \$200 received at the end of year 2, and \$300 received at the end of year 3, assuming an opportunity cost of 13 percent?

9. Douglas Keel, a financial analyst for Orange Industries, wishes to estimate the rate of return for two similar-risk investments, X and Y. A year earlier, investment X had a market value of \$20,000; investment Y had a market value of \$55,000. During the year, investment X generated cash flow of \$1,500 and investment Y generated cash flow of \$6,800. The current market values of investments X and Y are \$21,000 and \$55,000, respectively.

a. Calculate the expected rate of return on investments X and Y using the most recent year's data.

b. Assuming that the two investments are equally risky, which one should Douglas recommend? Why?

10 . Champion Breweries must choose between two asset purchases. The annual rate of return is given below:

Rate of Return	
Asset-A	Asset-B
10%	5%
15%	15%
20%	25%

Use standard deviation and coefficient of variation to compare both the assets and identify the asset with lower risk.

11. To finance a new line of product, the Tangshan Toys is planning to issue bond with a par value of \$1,000, coupon rate of 8 percent, and maturity of 30 years. Compute the price of the bond if the opportunity cost is 11 percent.