How can you convert the present value of an ordinary annuity into the present val...

Annuities are simply a series of payments or cash flow that occur periodically. Examples include lease and payment of rent. Annuities may be of two main types, ordinary annuity and annuity due. In an ordinary annuity cash flow (periodic payment) occurs at the end of every period, lets say month. Whereas, incase of annuity due, the payment for that particular month would be made at the starting of the period rather than the end. We can convert ordinary annuity into annuity due by multiplying the value of ordinary annuity by interest factor with power one, i. e. (1+i). Mathematically, PVad = PVoa(1+i) Assignment 5.

2 How can you convert the future value of an ordinary annuity into the future value of an annuity due. For more information about future value of an annuity go to URL: http://www. getobjects. com/Components/Finance/TVM/fva. html The same rule/formula would apply to the future value of annuity as well. It may be converted from ordinary to due by using the following formula: FVad = FVoa(1+i) Assignment 5. 3 What is an amortization schedule? What are the items that are shown in each row? For more information about amortization go to URL: http://www. getobjects. com/Components/Finance/TVM/amortization. html

An amortization schedule is a table that is used for calculating payments that are to be made in the form of installments. It indicates how much of the payment made contributed to principal, and interest. The items shown in the schedule includes Time of the payments, which may be years or months, depending on when the installments are made. The total payment made and its breakup into interest and principal. And last but not the least, the amount of balance that still remains after the payment is made. Internet Assignment

8. 2 Open URL http://mindyourdecisions. com/blog/2007/08/22/the-idea-of-sunk-costs/

and read the article The Idea of Sunk Cost. The author gives three examples of sunk cost. Think of an example of sunk cost from your experience and describe it in a paragraph. I went to a picnic a couple of years back. We were supposed to go to a seaside. So we made all the necessary arrangements and left early morning. But upon reaching the shores, we realized that the tides were very high, and the sea was very rough, and so coast guards had temporarily closedthe beach. The time and cost incurred during that trip was my sunk cost. Opportunity cost: This is the cost of the foregone alternative.

Such costs are included as incremental cash flows although no actual cash flow takes place. The reason is that there is a potential cash flow that could have taken place were it not for the decision to proceed with the project. Let us consider an example. I am a sports fan and I love watching football. But on the other hand, I also enjoy movies, and Tom Hanks is my favorite actor. Now at the same time, a particular football game is being televised live on a certain channel, and some other channel is playing one of my favorite Tom Hanks movies. Incase I watch one program, I would have to bear losing the other one. This is my opportunity cost.