**CFA Practice Questions**

**QN 1**

Which of the following two options will give you the greatest future value: (A) an initial deposit of $100 earning 20% per year, compounded annually and left to grow for 10 years, or (B) an initial deposit of $75 earning 12% per year, compounded monthly and left to grow for 15 years?

**QN2**

What is the present value of $5,000 that will be paid to you eight years from today at 8% interest?

**QN3**

An investment analyst has told you that it is better to invest $ 1,000 at the end of every month for one year in a scheme that pays interest of 8.5% p.a. compounded monthly, than to invest $ 3,000 at the end of every quarter in a scheme paying 10% p.a. compounded quarterly over the same period of time.

(a) Would you take his advice and how would you justify your decision? Show all calculations. Use the appropriate Excel function (PV or FV) to answer.

(b) If each investment took place at the beginning of each month, would the advice still be valid? Justify using the appropriate Excel function (PV or FV). Explain your answer.

**QN4**

What is the approximate present value of an ordinary annuity (beginning one year from now) of a stream of 12 annual payments of $87,000 if you use a discount rate of 6%?

**QN5**

If Maria invests $2,700 at the end of each six-month period for six years at an annual rate of 4%, what is the approximate future value of her ordinary annuity? Review Chapter 7 for the techniques of interannual compounding.

**QN6**

Debbie won the $60 million lottery. She is to receive $1 million a year for the next 50 years beginning one year from now, plus an additional lump sum payment of $10 million after 50 years. The discount rate is 10 percent. How much cash would she need to be offered today to tempt her to take a lump-sum cash offer instead, all things equal?