

32. Solution: C.

$$NPV = -100000 + (1.05)^{-4}(60000(1.04)^1 + 60000) = -100000 + (1.05)^{-4}(122400) = 698.72$$

Time		0	1	2	3	4
Cash Flow	Initial Investment	-100,000				
	Investment Returns				60,000	60,000
	Reinvestment Returns					60,000*.04 = 2400
	Total amount to be discounted	-100,000	0	0	0	60000+62400 = 122400
Discount Factor		1				1/(1.05)^4 = .822702
	698.72	-100,000	0	0		100,698.72