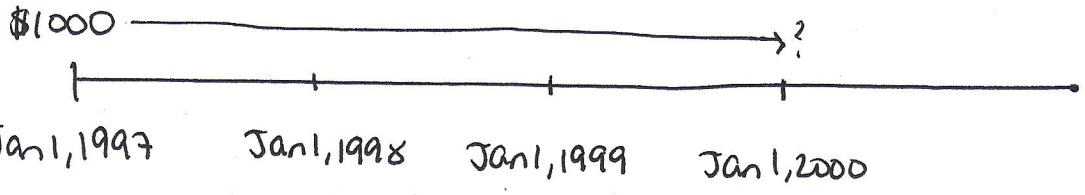
1008)



P: under investment yr method

Q: under the portfolio yield method

R: reinvestment at new rate

$i_1^{1997} = 9.5\%$

$i_2^{1997} = 9.5\%$

$i_3^{1997} = 9.6\%$

$P = 1000(1.095)(1.095)(1.096)$

$= \underline{1314.13}$

portfolio rates	yrs
8.35	1997
8.6	1998
8.85	1999

$Q = 1000(1.0835)(1.086)(1.0885)$

$= \underline{1280.817}$

$i_1^{1997} = 9.5\%$

$i_1^{1998} = 10.0\%$

$i_1^{1999} = 10.0\%$

$R = 1000(1.095)(1.10)(1.10)$

$= \underline{1324.95}$

$\therefore R > P > Q$ D