Answer on Question #74227 - Economics / Microeconomics

Question: An executive's three-year employment contract calls for an annual salary of $6

Million (paid in monthly installments) for the first year with a 10 percent increase in the salary

each year. What is the present value of this contract? The appropriate discount rate is 8 percent

per year.

Answer:

year		0			
1	$6 000 000	1	$	500 000	(=6000000/12)
2	$6 600 000	2	$	500 000	
3	$7 260 000	3	$	500 000	
		4	$	500 000	
		5	$	500 000	
		6	$	500 000	
		7	$	500 000	
		8	$	500 000	
		9	$	500 000	
		10	$	500 000	
		11	$	500 000	
		12	$	500 000	
		13	$	550 000	(=6600000/12)
		14	$	550 000	
		15	$	550 000	
		16	$	550 000	
		17	$	550 000	
		18	$	550 000	
		19	$	550 000	
		20	$	550 000	
		21	$	550 000	
		22	$	550 000	
		23	$	550 000	
		24	$	550 000	
		25	$	605 000	(=7260000/12)
		26	$	605 000	
		27	$	605 000	
		28	$	605 000	
		29	$	605 000	
		30	$	605 000	
		31	$	605 000	
		32	$	605 000	
		33	$	605 000	
		34	$	605 000	
		35	$	605 000	
		36	$	605 000	
			$	17 515 773	(=NPV(8%/12;1:36))

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