

Answer to Question 3:

Promised Yield:

Find the IRR of the following cashflows:

$$C_0 = -\$945.42$$

$$C_1 = \$40$$

$$C_2 = \$40$$

$$C_3 = \$40$$

$$C_4 = \$1040$$

$$\text{Promised Yield} = 0.0556 * 2 = 11.12\%$$

Expected Yield:

Find the IRR of the following cashflows:

$$C_0 = -\$945.42$$

$$C_1 = \$40$$

$$C_2 = \$40$$

$$C_3 = \$40$$

$$C_4 = 0.90 * 1040 + 0.10 * 0.6 * 1040 = \$998.4$$

$$\text{Expected Yield} = 0.0455 * 2 = 9.10\%$$