Name:

Score: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

For the next 4 years, measured in today’s dollars, a family anticipates buying $5,000 worth of groceries each year. If inflation is expected to be 3 percent/year, what will be the then- current cash flows required to purchase the groceries? (For purposes of the example, we assume that end-of-year expenditures are made for the groceries and that, like the CPI market basket, the same items are purchased in the same quantities each year.)

If the family wanted to invest money today to cover the cost of groceries over the next 4 years, how much would they need to invest if they earn 6 percent compounded annually on their investment?