

Finance 30220
Problem Set #1

- 1) When Father Theodore Hesburgh became president of Notre Dame in 1952, the endowment was \$7M. Over the past 56 years, it has grown to its current value of \$6.5B (this ranks Notre Dame as the 17th largest endowment in the country - Harvard is #1 with \$35B).
- Calculate the total return on the endowment from 1952 to 2008. Calculate the average annual return.
 - What is the difference between a nominal variable and a real variable?
 - The CPI in 1952 was 26.5 while the current CPI is 211 (1983 = 100). Convert both the 1952 endowment value and the 2008 endowment value to 1983 dollars.
 - Now, calculate the average annual real return on the Notre Dame endowment.
- 2) Suppose that the US and Germany produce two goods: Hot Dogs and Hamburgers. We have the following local prices and production levels in Germany and the US (US prices are in dollars, German prices are in Euro).

	US Production	German Production	US Price	German Price
Hot Dogs	3M	2.5M	\$3.50	E 2.25
Hamburgers	6M	3M	\$4.25	E 3.50

- Suppose that the current exchange rate is \$1.30 per Euro. Calculate GDP in the US and Germany using the PPP approach and the market exchange rate approach.
- 3) What is the Gini coefficient? If the Gini coefficient is increasing, what does this tell you about an economy?
- 4) In 1980, the price level was 76.7 while in 2007 it was 211. Calculate the average annual inflation rate in the US over the 27 year period.
- 5) Currently, the 3 month yield on a 90 day T-Bill is .46% while the cumulative 5 year yield on a 5 year T-Note is 17.5%. Calculate the annualized yields on these securities.