TOPIC
Economics – Section VI – Question 4

QUESTION
My son bought a used car and wants to set aside money for maintenance costs. The maintenance cost is projected to be $150 in the first year with an annual increase of $50 each year after the first year. Assuming an interest rate of 5 percent, the money he must set aside now to keep the car running for 10 years most nearly is
   (A) $650
   (B) $2650
   (C) $2741
   (D) $3700

HINT
This problem is solved by resolving the cash flow into two components, the portion corresponding to a uniform cash flow of $150 per year plus the portion corresponding to the gradient of $50 per year.

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