Return on investment

6 questions | 12 marks

Equivalent correct methods earn the corresponding marks.

1. Cost AUD 2500; total receipts AUD 2775. Find ROI. [2 marks]

$\text{Profit} = 275; \quad \frac{275}{2500} = 0.11.$

Answer: 11%

2. Cost AUD 1200; net receipts AUD 1110. Find ROI. [2 marks]

$\text{Profit} = -90; \quad \frac{-90}{1200} = -0.075.$

Answer: -7.5%

3. An investment earns AUD 480 profit at an ROI of 12%. Find its initial cost. [2 marks]

$P = \frac{480}{0.12} = 4000.$

Answer: AUD 4,000.00

4. Compare AUD 200 profit on AUD 1000 with AUD 300 profit on AUD 2000. [2 marks]

$\frac{200}{1000} = 0.20.$

$\frac{300}{2000} = 0.15.$

Answer: 20% versus 15%; first has the larger percentage return.

5. A single investment grows by 33.1% over 3 years. Find its equivalent annual rate. [2 marks]

$1.331^{\frac{1}{3}} - 1 = 0.10.$

Answer: 10%

6. A report says ROI was 8%. What extra timing information is needed before calling it 8% per year? [2 marks]

A totalperiod ROI does not by itself specify an annual rate.

Answer: The investment period and any intermediate cash-flow dates.