# 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]

Profit=275;275/2500=0.11.

**Answer:** 11%

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

Profit=−90;−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=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]

200/1000=0.20.

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^(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.