



In Class Exercises (ICE) - 11/8/00

Financial planning for retirement is something that most people leave too late in life. However, there are real advantages to starting early - the main one being that your investments have more time to grow before you need to start drawing on them during your retirement. A lot of internet sites feature graphs like the one shown in Figure 1 to try to convince people to start saving as early as possible.

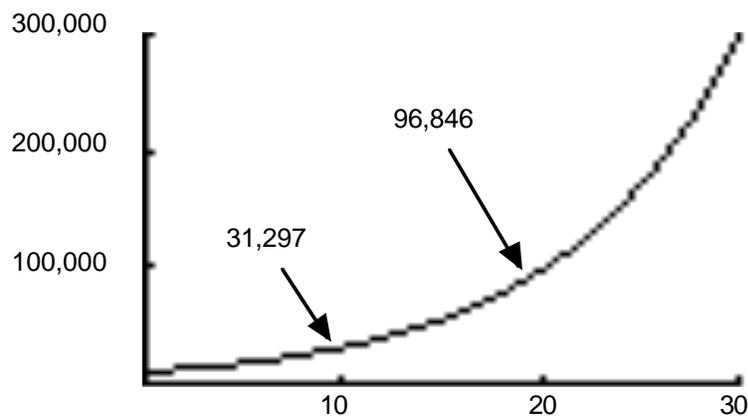


Figure 1: Hypothetical graph of value of investment versus time.

- **Assuming that Figure 1 shows the graph of an exponential function, what is the size of the initial investment and what is the annual percentage return on the investment?**

- **Do you think an exponential equation would actually do a good job of representing the growth of a typical retirement investment like a tax-deferred IRA?**