

Peter lives for three periods and has three alternative education-work options. He can start working immediately, earning \$100,000 in period 1, \$110,000 in period 2, and \$90,000 in period three. Alternatively, he can spend \$50,000 to attend college in period 1 and then earn \$180,000 in periods 2 and 3. Finally, he can receive a doctorate degree in period 2 after completing his college education in period 1. He will not have to pay and tuition and book costs, because he will have a fellowship. After receiving his doctorate, he will earn \$400,000 in period 3 as a professor in the business school. Peter's discount rate is 20 percent each period. What education path maximizes the net present value of his lifetime earnings? Does Peter's education path change if his discount rate is 5 percent? Show all work.