Bob and Carol are planning for the birth of their first child exactly four years from today. They are now ready to start their savings plan for the big event. The current hospital cost for having a healthy baby at the local hospital is $6500 after all insurance payments. Pre-natal care for the immediate 12-month period prior to having the baby amounts to $2000 out-of-pocket costs. Carol's best friend is planning a baby shower, so only a crib, a baby carrier, and other miscellaneous items will be needed, which all cost $1,200 today. However, these items will be purchased and paid for the day of the child’s birth, and the items are expected to increase in costs by 10% each year over the next four years due to inflation.

Bob and Carol now have $500 in cash that they plan to put in the bank in order to cover the all the new costs. Also, Uncle Ted has promised to contribute $1000 at the end of year two, as a present to Bob and Carol for baby expenses.

Currently, Bob and Carol can earn 6% compounded annually on this money. In order to be able to pay cash for all these expenses on the day the baby is born, how much will Bob and Carol have to save, assuming the baby is born exactly four years from today

Questions:

1. Draw the timeline that illustrates the timing of all the events of the situation described above.
2. How much will Bob and Carol need to have in the bank on the day the baby is born in order to achieve all their goals?
3. What amount needs to be saved at the end of each year in order for Bob and Carol to reach their financial goals?

Submission Details:

* Submit your 2 to 4 page paper in a Microsoft Word document, using APA style.