Unit 4 Discussion – Basic Time Value of Money

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If I have a choice to collect the cash as lump sum winnings today or receive the monies over time, I would definitely select the option to collect the cash as a lump sum amount today. Reason behind my decision is that future cannot be predicted, and I would love to pay off all my outstanding debts (usually in the form of students loans) as soon as possible, and I would invest the remaining money in some savings fund to earn interest on the deposited amount. There are various exceptions that may affect my decision and thus would result in an increase/decrease in my investments. For example, the Government deducts 25% tax as Federal Tax, and in addition to this, there are State taxes as well.

My decision to receive the cash today would certainly influence the amount of cash I would have in the future. If in case, there are no State taxes I would be able to receive $750,000 out of the $1,000,000 won. After getting $750,000 as lump sum I would invest it in stocks of a company or put the amount into a bank account to earn a return on my investment. For instance, I earn 10% annual interest rate so, after 10 days I would be having

FV = PV (1+r)^t

FV = $750,000 \* (1.10)^10

FV = $1,945,307

Or in case if I had invested my money for purchasing shares of any company, my results could have been quite greater than those calculated above.

Time Value of Money (TVM) is a concept, that states that cash in hand today is of greater value than the cash held at a later time. TVM is most commonly recognized as the discounted present value (Chen, 2019). The reason being that if we have dollars today (as in case of the Lottery winnings) we can invest the money somewhere thus earning returns on our investments and increasing our money.

# References

Chen, J. (2019, April 14). *Time Value of Money (TVM)*. Retrieved from Investopedia.com: https://www.investopedia.com/terms/t/timevalueofmoney.asp