

Exercise

1. You recently sold an ancestral agriculture land for Rs. 60 lakhs. You are considering two investment options. In the first option, you will deposit the amount in State Bank of India at 8% for 5 years under cumulative investment scheme. That is, you will be getting interest along with principal at the end of five years. In the second option, you can buy an apartment for an all-inclusive cost of Rs. 60 lakhs. You will get an annual rental income of Rs. 250,000 per year for the next five years. You also expect the apartment will appreciate at an average compound rate of 6% per year. You plan to sell the apartment at the end of 5 years. What is your decision – deposit in State Bank of India or investing in real estate? Ignore taxes and other factors.

Tips: The maturity value of SBI deposit is 60×1.08^5 ; Sale value of the flat at year 5 is 60×1.06^5