

9.10 Real or Nominal Discounting

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3:40 PM

Real or Nominal Interest Rate for Discounting

$$\text{Recall: } 1+r = 1+i/(1+m) \rightarrow r = i-m/(1+m)$$

IF BCA in nominal dollars, use the nominal rate
IF in real dollars, use the real rate (r)

USE Real values

- easier to interpret
- you do not know future prices

Inflation and Price indices?

T	B	C
2000	200	400
2001	300	600
2002	400	100
2003	50	200

- 1) adjust Past Prices to today
- 2) forecast future budget exp
- 3) $r = i - m$