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MGT451

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**Lecture #5 Notes**

*Temporal Discounting*

* Preference for **Small Sooner Reward** (**SSR**) vs. **Longer Later Reward** (**LLR**)
  + $100 now vs. $105 in 1 week
  + $100 now vs. $105 now
  + **Change in perceived value of something as it’s extended later in time (devalued or discounted)**
* Choice Problems:
  + $1 now vs. $x at t
  + $1 now vs. $x now
* Generalize further by introducing possibility of risk or probabilistic measures
  + $1 now at probability p1 vs. $0 now at probability 1 – p1
  + $x at time t at probability 1.00
  + $x at time t at probability p2 vs.
* Generalize further:
  + $a at time ta at probability p1 vs. $b at time tb at probability 1 – p1
  + $c at time tc at probability p2 vs. $d at time td at probability 1 – p2
    - **10 parameters** set of decision problems