

# Give recommendation to partners

[Business](#)



1) a) Present Value for the Certificate of Deposit: \$2, 000 Interest Rate = 6% compounded monthly Term Period = 6 Months Future Value for the Certificate of Deposit: \$ 2, 030. 15

b)

Interest Earned = Future Value for the Certificate of Deposit - Present Value for the Certificate of Deposit = \$30. 15

c)

Effective Interest Rate for the Certificate of Deposit: 6. 17%

2)

a)

Present Value for High Interest Saving Account: \$4, 000

Interest Rate = 2% compounded daily

Term Period = 6 Months

Future Value for High Interest Saving Account: \$4, 020. 05

b)

Interest Earned = Future Value for High Interest Saving Account - Present Value for High Interest Saving Account = \$20. 05

c)

Effective Interest Rate for High Interest Saving Account = 2. 02%

3)

The two short term investment mechanisms outline above indicate that there is limited chance of earning through the second method in comparison to the first method. The two modes of evaluation that were used in the above calculations include effective rate of interest calculations and future value calculations. The effective rate of interest for the Certificate of Deposits indicates that 0. 17% higher rate will be earned than the quoted <https://assignbuster.com/give-recommendation-to-partners/>

nominal interest rate. This rate is calculated based on the fact that the investment gives monthly compounding on the nominal interest earned over the six month investment. In comparison, the second investment is a high interest saving account that provides 2% on a daily compounding basis for a six monthly investment. When compared through the effective rate of interest, the high interest saving account only provides up to 0.02% higher than the nominal interest rate of 2%.

The two short term investments were then evaluated through future value analysis as well. The future value calculated for the Certificate of Deposit came out to be \$2,030.15 which is \$30.15 higher than the present value of \$2,000 invested at the beginning of the six month period. In comparison to the Certificate of Deposit, the future value earned in the high interest saving account was \$4,020.05 which is only \$20.05 higher from the investment amount which was \$4,000 for six months. This clearly indicates that the Certificate of Deposit is a better short term investment opportunity for the organization than the high interest saving account.

There are various analyses which can be conducted on short term investment opportunities. A number of opportunities can be utilized in a combination as well to provide large savings for the organization. The main concept behind any short or long term investment is the investment objectives of the organization. If the organization believes in liquidity and requires ready cash then the best options would be those that help liquidate investments immediately. In that context high interest saving accounts may be a better choice than certificates of deposit, if high interest saving accounts do not have a conditional drawing clause. On the other hand, if the organization believes in saving rather than liquidity, then certificates of

<https://assignbuster.com/give-recommendation-to-partners/>

deposit would be a better choice in the short term where the money is fixed and cannot be drawn for the next six months.