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## News article discussion – 02 Time Value of Money

Please read the article “Dow plunges nearly 800 points, despite Fed rescue attempt” which can be found in Links in Documents for this topic.

The discussion of the article in class will be guided by the questions below.

### *Discussion questions*

1. Why should we care about Central Banks rate changes?
2. What happened to the time value of money on March 3<sup>rd</sup> 2020 in the USA?

Suppose you are living in the US and you currently have a mortgage. You pay \$1000 every month and there are 48 payments remaining. The article mentions the following: *“The Fed's move should lower the cost of borrowing, including for credit cards, auto loans and mortgages”*.

If the FED rate cut decreases the monthly interest rate, then surely the PV of your loan has increased.

3. Comment on the accuracy of the previous statement.

### *Preview of next class:*

*“The declines came despite a move by the Federal Reserve to cut a key interest rate by a half percentage point in an emergency attempt to shore up the economy at a time when the coronavirus threatens to slow growth.”*

4. Why does the article mention that declines in indexes occurred **despite** the interest rate cut? That is, why should we have expected an increase in the indexes (holding everything else constant)?