Baseball and powerball

After completing this section, students should be able to:

- Use loan calculations to decide if it is better to take a lump sum or annual payments for a signing bonus or lottery payment.
Before Class

This section needs a before class assignment
Baseball Contracts

According to a CNN article from July 1, 2019,

- baseball player Bobby Banilla is still getting paid $1.2 million a year from the NY Mets even though he hasn’t played for them since 1999. (more specifically, $1,193,248.20 a year.

- These payments started in 2011 and will continue through 2035.

- In 1999, they only owed him almost 6 million, and wanted to get rid of him, and instead of paying him outright, negotiated this deal, based on an 8% interest rate.

(a) How much money will Banilla get paid in total with all of these annual payments of $1.2 million.

(b) How can “almost 6 million” now, translate into this big a figure?
(c) Would you rather have gotten the almost 6 million in 1999 or the 1.2 million a year from 2011 through 2035? Why?
For the April 15, 2020 powerball, if you win, suppose you can take either $22,000,000, in annual installments of $733,333 for the next 30 years, or $17,700,000 now.

(a) If we ignore taxes, which do you prefer?
(b) What if we consider taxes, and assume you will pay 24% federal tax and 5.499% state taxes, does that change your answer?
(c) In fact, powerball does not pay equal payments. It starts with a smaller payment and increases by 5% each year. Does that change your answer?