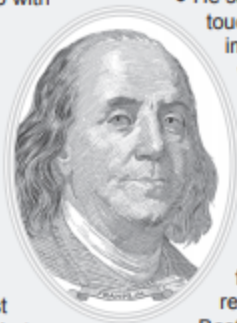


# The magic of compound interest has a 200-year-old history

While we talk about compounding in 2020, its magical powers were well established two centuries ago with an interesting experiment.

## Where it all started

- Benjamin Franklin authored 'Poor Richard's Almanack' which was in circulation from 1732 to 1758.
- A few decades later, a French Mathematician mocked the spirit of American optimism in his book, 'Fortunate Richard', which was a parody of Franklin's work.
- The book had a piece wherein the protagonist leaves a small sum in his will on a condition that it should be used only after the sum collects interest for 500 years.
- Instead of getting offended, Benjamin Franklin thanked the mathematician for such a brilliant idea and did something similar.



## The experiment

- Franklin passed away in 1790, and since Boston and Philadelphia were two of his favourite cities, he left each of them 1000 pounds (which roughly translated to \$4500 at that time) with a condition.
  - He said that the money should be invested and be touched or withdrawn in two parts for the municipal improvements of the two respective cities. The first withdrawals were to be made after 100 years and the next after 200 years. The cities were allowed to spend three quarters of the first withdrawal for their development and were instructed to keep the remaining amount invested for the next 100 years.
    - After the first 100 years, the investment value, thanks to compound interest, was almost \$400,000 for Boston and roughly \$100,000 for Philadelphia. After the next 100 years, the remaining amount had grown to \$4.5 million for Boston and \$2 million for Philadelphia.
  - The difference in the final value was because of the difference in the handling of investments for the two cities. Nevertheless, both Boston and Philadelphia benefited.

**There! You see the tried and tested results of the power of compounding.**