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Lecture 4

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Compound interest

$F = p(1+i)^n$

$P = f/(1+i)^n$

$F = P(1+\frac{i}{m})^{nm}$ if interest i compound m times per periodn

Where

m= 2 if compound semiannually

m=4 if compound quarterly

m= 12 if compound monthly

m= 365 if compound daily

example1:- if you deposit 4000$ into an account paying 6% annual interest compound quarterly how much will be in the account after 5 years?

Solution:-

P= 4000$ i=0.06 n= 5 m=4

F=p $(1+\frac{i}{m})^{nm}$

$= 4000(1+0.06/4)^{(5)(4)}$

F= 5387.42$ in the account

example1:- if you deposit 1000$ into an account paying 12% annual interest compound annually how much will be in the account after 4 years?

Solution:-

P=1000$ i=12% n=4 years

$F=p(1+i)^n$

$F=1000(1+0.012)^4$

F=1573.5$