Practice worksheet | Financial mathematics

Effective interest rates

Name: _____ Date: _____

6 questions | 18 marks

1. Convert 4.8% nominal per year, compounded quarterly, to an effective annual rate.
[3 marks]

2. A balance grows by a factor of 1.072 in one year. State its effective annual interest rate.
[3 marks]

3. Find the nominal annual rate, compounded monthly, equivalent to 6% effective per year.
[3 marks]

4. What monthly effective rate is equivalent to an 8% effective annual rate? [3 marks]

5. AUD 4,000 is invested for 3 years at an effective annual rate of 5.2%. Find its balance. [3 marks]

6. A nominal rate is 0% with monthly compounding. Find its effective annual rate and explain the result. [3 marks]