

Finance Equations And Answers (Speedy Study Guides)

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Speedy Study Guides **FINANCE EQUATIONS AND ANSWERS**

Amortization

What it is: Amortization means making periodic payments over time to pay off debt.

How to use it: This equation calculates how much a monthly payment will be on a debt. Rearrange the equation algebraically to show what portion of each monthly payment will go towards interest and toward the principle.

Best for: Calculating the cost of long-term debt like mortgages, car loans, student loans, etc.

$$\text{Monthly Payment} = \frac{P \cdot (\frac{r}{n})}{(1 - (1 + \frac{r}{n})^{-nt})}$$

P = principal
r = interest rate
t = number of periods
n = payments per period

Simple Interest

What it is: Simple interest is interest earned from principal.

$$\text{Simple Interest} = P \cdot r \cdot t$$

P = principal
r = interest rate
t = number of periods

How to use it: This calculation can be done quickly to provide an idea of how much interest will accrue over time. Just remember: This equation ignores the effects of compounding. You'll get an error when you're working with a larger principle and longer stretches of time.

Best for: A rough estimate on what you'll earn in a savings account, or pay on a loan or a credit card.

Compound Interest

What it is: The compound interest is the interest earned on the principal, and any interest accrued in the past.

How to use it: Use this formula instead of the simple interest equation to get a more precise number for how much interest will accrue.

Best for: Determining how much actual interest you will earn over time on an investment or pay on a debt.

$$A = P(1 + \frac{r}{n})^{nt}$$

A = Amount accumulated
P = principal
r = interest rate
n = compoundings per period
t = number of periods

"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future."

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If you're struggling with finance in college, then this is the book you ought to have! This quick study guide is composed of ideas interlaced with formula guides and arranged from the basic to the advanced. Using the ideas in this guide, solving financial equations shouldn't be a task almost impossible to accomplish. Get your own copy today!