

### **Part III: The Nominal Interest Rates versus Effective Interest Rates (Section 2.4)**

The Nominal Interest Rate is the named rate from a bank. The Effective Interest Rate is the actual interest rate that takes into account the number of compounds per year and is a bit higher than the Nominal Interest Rate due to the compounds per year. The Effective Interest Rate is always a bit higher than the Nominal Interest Rate.

**Example:** Find the effective interest rate given a nominal interest rate of 4%, compounded monthly.