Chapter 2: Financial Math

Section 2.1: The Concept of Interest

Interest is a fee a loaner of money charges a borrower for the right to borrow money. The interest makes loaning money profitable. Interest is also paid for the right to "hold" money in an account, typically, by a banking institution.

Simple Interest Equation

Compound Interest Equation

Part I: Examples of Simple Interest (Section 2.1)

1. You deposit $5000 in a simple interest account for 5 years. If the interest rate is 2%, how much interest do you earn and what will be the total amount be in your account after the 5 year period?

2. A person borrows $5000 for 5 years at 17% simple interest for 5 years. How much interest is paid and how much will be owed after the 5 year period?

3. How much money would you need to deposit in a simple interest account today that pays 3% interest for you to reach a goal of $20,000 upon your graduation from Radford University?

4. What is the simple interest rate of an account that starts at $3000 and grows to $3700 in 12 years?