Practice worksheet | Investing and borrowing

Effective annual rates

Name: _____ Date: _____

6 questions | 12 marks

1. Effective annual rate for 8% nominal compounded quarterly,3 decimal places? [2 marks]

2. Effective annual rate for 1% per month,3 decimal places? [2 marks]

3. Compare 7% effective annually with 6.9% nominal compounded monthly, ignoring fees. [2 marks]

4. Quarterly rate equivalent to 12% effective annually,3 decimal places as a percentage? [2 marks]

5. Why do nominal and effective annual rates agree when compounded annually? [2 marks]

6. AUD 2000 becomes AUD 2120 in one year with no transactions or fees. Find effective annual rate. [2 marks]