Q1. The effective annual interest rate is:

A. always equal to the annual percentage rate.
B. greater than the annual percentage rate when the number of compounding periods per year is greater than one.
C. less than the annual percentage rate when the number of compounding periods per year is greater than one.

Q2. You borrow $10,000 at 8% to finance a new car. The loan will be paid back over 3 years of monthly payments. Your effective rate of interest would be closest to:

A. 8.00% B. 8.24% C. 8.30%

Q3. The new products officer for the Strong-n-Safe Bank is trying to determine the stated rate for a new 4 year CD. The effective rate will be 6.95%, and the CD will offer continuous compounding. The advertised stated rate would be closest to: A. 6.72% B. 6.82% C. 7.20%

Q4. Which of the following statements is False?

I. If the compounding period is one year, stated annual interest is the same as effective annual interest.
II. If the compounding period is less than one year, effective annual interest is greater than stated annual interest.
III. If the compounding period is less than one year, stated annual interest is greater than effective annual interest.

Q5. Which of the following amounts is closest to the end value of investing $100,000 for 5 years at an effective annual interest rate of 12% compounded annually.

A. $182,212. B. $172,000. C. $176,234

Q6. The nominal interest rate is 7%, then the effective annual rate is

I. 7.19 % with quarterly compounding. II. 7.21% with monthly compounding. III. 7.25 % with continuous compounding

  Q7. A bank quotes 7.80% with an effective annual interest rate of 8.11%. Is the compounding

   A. quarterly B. monthly C. daily

Q8. An investor invests $5000 today for 7 years at an interest rate of 8% compounded quarterly. Which of the following is true?

A. The effective annual interest rate is 8.24 % and the future value of the investment at the end of 7 years is $8,705.12.
B. The effective annual interest rate is 8.24 % and the future value of the investment at the end of 7 years is $8,725.12.
C. The stated nominal annual interest rate is 8.35 % and the future value of the investment at the end of 7 years is $8,705.12.

Q9. You have received $350 today. You will invest the money at a rate of 8% per year, compounded quarterly. How much will your investment have increased to by the end of 5 years? A. $490.00 B. $514.26 C. $520.08