Explain interest rates, present and future value, loan or annuity amortisation and its tables.

Key knowledge | Free preview

Learning target: Explain interest rates, present and future value, loan or annuity amortisation and its tables.

Financial calculations depend on the point in time at which money is valued and on how interest is calculated. Simple interest uses the original principal; compounding uses the changing balance. Present value discounts a future amount. An amortisation row separates interest from principal reduction, which prevents a repayment from being mistaken for an equal reduction in the outstanding balance.

Try the mathematics

Task 1. Compare $1000 invested for two years at 10% simple interest and 10% annually compounded interest. Find the present value, at 10% annual compounding, of $1210 due in two years. Also give the effective annual rate for nominal 6% compounded monthly.

Continue with the full worksheet

The complete resource has 2 focused task sets and substantive worked solutions. Use an exercise book or print the A4 worksheet. This preview shows the first task without its full solution.

Find this resource:
https://resources.aspiretopowerlearning.com.au/vce/skills/aspire-internal-gm-u34-o1-aos2-finance-kk-03/

Study-design reference

VCE Mathematics Study Design 2023-2027, version 1.1 (November 2022). General Mathematics; Units 3–4; Outcome 1; Key knowledge; Recursion and financial modelling; bullet 3; p. 91.

The learning target is a concise paraphrase. Aspire reference: aspire-internal-gm-u34-o1-aos2-finance-kk-03. This is an internal identifier, not an official VCAA code.

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