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January 13, 2005   **Name:** Kyle Ness

1. What is the compound interest formula and define the terms.

$$F = P(1 + i)^n$$

F = future value of money
P = Present value of money
i = interest rate
n = # of interest accumulation periods

2. What are the two most important factors with respect to the time value of money.

1. interest rate   2. time

3. Briefly describe what equivalence is.

Comparing "apples" to "apples" or more specifically looking at money values of the same time so 2 years from now or today not comparing $2000 today with $800 2 years from now.

4. By means of a sketch graphical depict the difference between simple interest and compound interest.

compound interest

simple interest