## SECTION 6.1 PROBLEM SET: SIMPLE INTEREST AND DISCOUNT

Do the following simple interest problems.

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| --- | --- |
| 1) If an amount of $2,000 is borrowed at a simple interest rate of 10% for 3 years, how much is the interest? | 2) You borrow $4,500 for six months at a simple interest rate of 8%. How much is the interest? |
| 3) John borrows $2400 for 3 years at 9% simple interest. How much will he owe at the end of 3 years? | 4) Jessica takes a loan of $800 for 4 months at 12% simple interest. How much does she owe at the end of the 4-month period? |
| 5) If an amount of $2,160, which includes a 10% simple interest for 2 years, is paid back, how much was borrowed 2 years earlier? | 6) Jamie just paid off a loan of $2,544, the principal and simple interest. If he took out the loan six months ago at 12% simple interest, what was the amount borrowed? |
| 7) Shanti charged $800 on her charge card and did not make a payment for six months. If there is a monthly charge of 1.5%, how much does she owe? | 8) A credit card company charges 18% interest on the unpaid balance. If you owed $2000 three months ago and have been delinquent since, how much do you owe? |

***SECTION 6.1 PROBLEM SET: SIMPLE INTEREST AND DISCOUNT***

Do the following simple interest problems.

|  |  |
| --- | --- |
| 9) An amount of $2000 is borrowed for 3 years. At the end of the three years, $2660 is paid back. What was the simple interest rate? | 10) Nancy borrowed $1,800 and paid back $1,920, four months later. What was the simple interest rate? |
| 11) Jose agrees to pay $2,000 in one year at an interest rate of 12%. The bank subtracts the discount of 12% of $2,000, and gives the rest to Jose. Find the amount of the discount and the proceeds to Jose. | 12) Tasha signs a note for a discounted loan agreeing to pay $1200 in 8 months at an 18% discount rate. Determine the amount of the discount and the proceeds to her. |
| 13) An amount of $8,000 is borrowed at a discount rate of 12%, find the proceeds if the length of the loan is 7 months. | 14) An amount of $4,000 is borrowed at a discount rate of 10%, find the proceeds if the length of the loan is 180 days. |
| 15) Derek needs $2400 new equipment for his shop. He can borrow this money at a discount rate of 14% for a year. Find the amount of the loan he should ask for so that his proceeds are $2400. | 16) Mary owes Jim $750, and wants to repay him. Mary decides to borrow the amount from her bank at a discount rate of 16%. If she borrows the money for 10 months, find the amount of the loan she should ask for so that her proceeds are $750? |

## SECTION 6.2 PROBLEM SET: COMPOUND INTEREST

Do the following compound interest problems involving a lump-sum amount.

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| --- | --- |
| 1) What will the final amount be in 4 years if $8,000 is invested at 9.2% compounded monthly.? | 2) How much should be invested at 10.3% for it to amount to $10,000 in 6 years? |
| 3) Lydia's aunt Rose left her $5,000. Lydia spent $1,000 on her wardrobe and deposited the rest in an account that pays 6.9% compounded daily. How much money will she have in 5 years? | 4) Thuy needs $1,850 in eight months for her college tuition. How much money should she deposit lump sum in an account paying 8.2% compounded monthly to achieve that goal? |
| 5) Bank A pays 5% compounded daily, while Bank B pays 5.12% compounded monthly. Which bank pays more? Explain. | 6) EZ Photo Company needs five copying machines in 2 1/2 years for a total cost of $15,000. How much money should be deposited now to pay for these machines, if the interest rate is 8% compounded semiannually? |
| 7) Jon's grandfather was planning to give him $12,000 in 10 years. Jon has convinced his grandfather to pay him $6,000 now, instead. If Jon invests this $6,000 at 7.5% compounded continuously, how much money will he have in 10 years? | 8) What will be the price of a $20,000 car in 5 years if the inflation rate is 6%? |

***SECTION 6.2 PROBLEM SET: COMPOUND INTEREST***

Do the following compound interest problems.

|  |  |
| --- | --- |
| 9) At an interest rate of 8% compounded continuously, how many years will it take to double your money?  | 10) If an investment earns 10% compounded continuously, in how many years will it triple? . |
| 11) The City Library ordered a new computer system costing $158,000; it will be delivered in 6 months, and the full amount will be due 30 days after delivery. How much must be deposited today into an account paying 7.5% compounded monthly to have $158,000 in 7 months? | 12) Mr. and Mrs. Tran are expecting a baby girl in a few days. They want to put away money for her college education now. How much money should they deposit in an account paying 10.2% so they will have $100,000 in 18 years to pay for their daughter's educational expenses? |
| 13) Find the effective interest rate for an account paying 7.2% compounded quarterly. | 14) If a bank pays 5.75% compounded monthly, what is the effective interest rate? |
| 15) The population of the African nation of Cameroon was 12 million people in the year 2015; it has been growing at the rate of 2.5% per year. If the population continues to grow that rate,what will the population be in 2030? ([http://databank.worldbank.org/data on 4/26/2016](http://databank.worldbank.org/data%20on%204/26/2016)) | 16) According to the Law of 70, if an amount grows at an annual rate of 1%, then it doubles every seventy years. Suppose a bank pays 5% interest, how long will it take for you to double your money? How about at 15%? |

## SECTION 6.3 PROBLEM SET:ANNUITIES AND SINKING FUNDS

Each of the following problems involve an annuity - a sequence of payments.

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| --- | --- |
| 1) Find the future value of an annuity of $200 per month for 5 years at 6% compounded monthly. | 2) How much money should be deposited at the end of each month in an account paying 7.5% for it to amount to $10,000 in 5 years? |
| 3) At the end of each month Rita deposits $300 in an account that pays 5%. What will the final amount be in 4 years? | 4) Mr. Chang wants to retire in 10 years and can save $650 every three months. If the interest rate is 7.8%, how much will he have (a) at the end of 5 years? (b) at the end of 10 years? |
| 5) A firm needs to replace most of its machinery in five years at a cost of $500,000. The company wishes to create a sinking fund to have this money available in five years. How much should the quarterly deposits be if the fund earns 8%?  | 6) Mrs. Brown needs $5,000 in three years. If the interest rate is 9%, how much should she save at the end of each month to have that amount in three years? |

***SECTION 6.3 PROBLEM SET: ANNUITIES AND SINKING FUNDS***

Each of the following problems involve an annuity - a sequence of payments.

|  |  |
| --- | --- |
| 7) A company has a $120,000 note due in 4 years. How much should be deposited at the end of each quarter in a sinking fund to payoff the note in four years if the interest rate is 8%? | 8) You are now 20 years of age and decide to save $100 at the end of each month until you are 65. If the interest rate is 9.2%, how much money will you have when you are 65? |
| 9) Is it better to receive $400 at the beginning of each month for six years, or a lump sum of $25,000 today if the interest rate is 7%? Explain.  | 10) To save money for a vacation, Jill decided to save $125 at the beginning of each month for the next 8 months. If the interest rate is 7%, how much money will she have at the end of 8 months? |
| 11) Mrs. Gill puts $2200 at the end of each year in her IRA account that earns 9% per year. How much total money will she have in this account after 20 years?  | 12) If the inflation rate stays at 6% per year for the next five years, how much will the price be of a $15,000 car in five years? How much must you save at the end of each month at an interest rate of 7.3% to buy that car in 5 years? |

## SECTION 6.4 PROBLEM SET: PRESENT VALUE OF AN ANNUITY AND INSTALLMENT PAYMENT

For the following problems, show all work.

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| --- | --- |
| 1) Shawn has won a lottery paying him $10,000 per month for the next 20 years. He'd rather have the whole amount in one lump sum today. If the current interest rate is 8.2%, how much money can he hope to get? | 2) Sonya bought a car for $15,000. Find the monthly payment if the loan is to be amortized over 5 years at a rate of 10.1%. |
| 3) You determine that you can afford $250 per month for a car. What is the maximum amount you can afford to pay for a car if the interest rate is 9% and you want to repay the loan in 5 years? | 4) Compute the monthly payment for a house loan of $200,000 to be financed over 30 years at an interest rate of 10%. |
| 5) If the $200,000 loan in the previous problem is financed over 15 years rather than 30 years at 10%, what will the monthly payment be? | 6) Friendly Auto offers Jennifer a car for $2000 down and $300 per month for 5 years. Jason wants to buy the same car but wants to pay cash. How much must Jason pay if the interest rate is 9.4%? |

***SECTION 6.4 PROBLEM SET: PRESENT VALUE OF AN ANNUITY AND INSTALLMENT PAYMENT***

For the following problems, show all work.

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| 7) The Gomez family bought a house for $450,000. They paid 20% down and amortized the rest at 5.2% over a 30-year period. Find their monthly payment. | 8) Mr. and Mrs. Wong purchased their new house for $350,000. They made a down payment of 15%, and amortized the rest over 30 years. If the interest rate is 5.8%, find their monthly payment. |
| 9) A firm needs a piece of machinery that has a useful life of 5 years. It has an option of leasing it for $10,000 a year, or buying it for $40,000 cash. If the interest rate is 10%, which choice is better?  | 10) Jackie wants to buy a $19,000 car, but she can afford to pay only $300 per month for 5 years. If the interest rate is 6%, how much does she need to put down? |
| 11) Vijay's tuition at college for the next year is $32,000. His parents have decided to pay the tuition by making nine monthly payments. If the interest rate is 6%, what is the monthly payment? | 12) Glen borrowed $10,000 for his college education at 8% compounded quarterly. Three years later, after graduating and finding a job, he decided to start paying off his loan. If the loan is amortized over five years at 9%, find his monthly payment for the next five years. |

## SECTION 6.5 PROBLEM SET: MISCELLANEOUS APPLICATION PROBLEMS

For problems 1 - 4, assume a $200,000 house loan is amortized over 30 years at an interest rate of 5.4%.

|  |  |
| --- | --- |
| 1) Find the monthly payment. | 2) Find the balance owed after 20 years. |
| 3) Find the balance of the loan after 100 payments.\ | 4) Find the monthly payment if the original loan were amortized over 15 years. |

|  |  |
| --- | --- |
| 5) Mr. Patel wants to pay off his car loan. The monthly payment for his car is $365, and he has 16 payments left. If the loan was financed at 6.5%, how much does he owe?  | 6) An amount of $2000 is borrowed for a year at a rate of 7%. Make an amortization schedule showing the monthly payment, the monthly interest on the outstanding balance, the portion of the payment going toward reducing the debt, and the balance. |

***SECTION 6.5 PROBLEM SET: MISCELLANEOUS APPLICATION PROBLEMS***

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| 7) Fourteen months after Dan bought his new car he lost his job. His car was repossessed by his lender after he made only 14 monthly payments of $376 each. If the loan was financed over a 4-year period at an interest rate of 6.3%, how much did the car cost the lender? In other words, how much did Dan still owe on the car? | 8) You have a choice of either receiving $5,000 at the end of each year for the next 5 years or receiving $3000 per year for the next 10 years. If the current interest rate is 9%, which is better? |
| 9) Mr. Smith is planning to retire in 25 years and would like to have $250,000 then. What monthly payment made at the end of each month to an account that pays 6.5% will achieve his objective? | 10) Assume Mr. Smith has reached retirement and has $250,000 in an account which is earning 6.5%. He would now like to make equal monthly withdrawals for the next 15 years to completely deplete this account. Find the withdrawal payment.  |
| 11) Mrs. Garcia is planning to retire in 20 years. She starts to save for retirement by depositing $2000 each quarter into a retirement investment account that earns 6% interest compounded quarterly. Find the accumulated value of her retirement savings at the end of 20 years. | 12) Assume Mrs. Garcia has reached retirement and has accumulated the amount found in question 13 in a retirement savings account. She would now like to make equal monthly withdrawals for the next 15 years to completely deplete this account. Find the withdrawal payment. Assume the account now pays 5.4% compounded monthly. |

***SECTION 6.5 PROBLEM SET: MISCELLANEOUS APPLICATION PROBLEMS***

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| 13) A ten-year $1,000 bond pays $35 every six months. If the current interest rate is 8.2%, find the fair market value of the bond. Hint: You must do the following. a) Find the present value of $1000. b) Find the present value of the $35 payments. c) The fair market value of the bond = a + b | 14) Find the fair market value of the ten-year $1,000 bond that pays $35 every six months, if the current interest rate has dropped to 6%. Hint: You must do the following. a) Find the present value of $1000. b) Find the present value of the $35 payments. c) The fair market value of the bond = a + b |
| 15) A twenty-year $1,000 bond pays $30 every six months. If the current interest rate is 4.2%, find the fair market value of the bond. Hint: You must do the following. a) Find the present value of $1000. b) Find the present value of the $30 payments. c) The fair market value of the bond = a + b | 16) Find the fair market value of the twenty-year $1,000 bond that pays $30 every six months, if the current interest rate has increased to 7.5%.  |

***SECTION 6.5 PROBLEM SET: MISCELLANEOUS APPLICATION PROBLEMS***

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| --- | --- |
| 17) Mr. and Mrs. Nguyen deposit $10,000 into a college investment account when their new baby grandchild is born. The account earns 6.25% interest compounded quarterly. a, When their grandchild reaches the age of 18, what is the accumulated value of the college investment account?b, The Nguyen’s grandchild has just reached the age of 18 and started college. If she is to withdraw the money in the college savings account n equal monthly payments over the next 4 years, how much money will be withdrawn each month? | 18) Mr. Singh is 38 and plans to retire at age 65. He opens a retirement savings account.a. Mr. Singh wants to save enough money to accumulate $500,000 by the time he retires. The retirement investment account pays 7% interest compounded monthly. How much does he need to deposit each month to achieve this goal?b. Mr. Singh has now reached at 65 and retires. How much money can he withdraw each month for 25 years if the retirement investment account now pays 5.2% interest, compounded monthly? |

## SECTION 6.6 PROBLEM SET: CLASSIFICATION OF FINANCE PROBLEMS

Let the letters A, B, C, D, E and F be represented as follows:

A = FV of a lump-sum C = FV of an annuity E = Installment payment

B = PV of a lump-sum D = Sinking fund payment F = PV of an annuity

Classify each by writing the appropriate letter in the box, and write an equation for solution.

1) What monthly deposits made to an account paying 9% will grow to $10,000 in 4 years?

2) An amount of $4000 is invested at 6% compounded daily. What will the final amount be in 5 years?

3) David has won a lottery paying him $10,000 per month for the next 20 years. He'd rather have the whole amount in one lump sum now. If the current interest rate is 7%, how much money can he hope to get?

4) Each month Linda deposits $250 in an account that pays 9%. How much money will she have in 4 years?

5) Find the monthly payment for a $15,000 car if the loan is amortized over 4 years at a rate of 10%.

6) What lump-sum deposited in an account paying 7% compounded daily will grow to $10,000 in 5 years?

7) What amount of quarterly payments will amount to $250,000 in 5 years at a rate of 8%?

8) The Chang family bought their house 25 years ago. They had their loan financed for 30 years at an interest rate of 11% resulting in a payment of $1350 a month. Find the balance of the loan.

9-10) A 10-year $1000 bond pays $35 every six months. If the current interest rate is 8%, in order to find the fair market value of the bond, we need to find the following.

 9) The present value of $1000. 10) The present value of the $35 per six month payments.

***SECTION 6.6 PROBLEM SET: CLASSIFICATION OF FINANCE PROBLEMS***

A = FV of a lump-sum C = FV of an annuity E = Installment payment

B = PV of a lump-sum D = Sinking fund payment F = PV of an annuity

11) What lump-sum deposit made today is equal to 33 monthly deposits of $500 if the interest rate is 8%?

12) What monthly deposits made to an account paying 10% will accumulated to $10,000 in six years?

13) A department store charges a finance charge of 1.5% per month on the outstanding balance.
If Ned charged $400 three months ago and has not paid his bill, how much does he owe?

14) What will the value of $300 monthly deposits be in 10 years if the account pays 12% compounded monthly?

15) What lump-sum deposited at 6% compounded daily will grow to $2000 in three years?

16) A company buys an apartment complex for $5,000,000 and amortizes the loan over 10 years.
What is the yearly payment if the interest rate is 14%?

17) In 2002, a house in Rock City cost $300,000. Real estate in Rock City has been increasing in value at the annual rate of 5.3%.. Find the price of that house in 2016.

18) You determine that you can afford to pay $400 per month for a car. What is the maximum price you can pay for a car if the interest rate is 11% and you want to repay the loan in 4 years?

19) A business needs $350,000 in 5 years. How much lump-sum should be put aside in an account that pays 9% so that five years from now the company will have $350,000?

20) A person wishes to have $500,000 in a pension fund 20 years from now. How much should he deposit each month in an account paying 9% compounded monthly?

## SECTION 6.7 PROBLEM SET: CHAPTER REVIEW

1) Manuel borrows $800 for 6 months at 18% simple interest. How much does he owe at the end of 6 months?

2) The population of a city is 65,000 and expects to grow at a rate of 2.3% per year for the next 10 years. What will the population of this city be in 10 years?

3) The Gill family is buying a $250,000 house with a 10% down payment. If the loan is financed over a 30 year period at an interest rate of 4.8%, what is the monthly payment?

4) Find the monthly payment for the house in the above problem if the loan was amortized over 15 years.

5) You look at your budget and decide that you can afford $250 per month for a car. What is the maximum amount you can afford to pay for the car if the interest rate is 8.6% and you want to finance the loan over 5 years?

6) Mr. Nakahama bought his house in the year 1998. He had his loan financed for 30 years at an interest rate of 6.2% resulting in a monthly payment of $1500. In 2015, 17 years later, he paid off the balance of the loan. How much did he pay?

7) Lisa buys a car for $16,500, and receives $2400 for her old car as a trade-in value. Find the monthly payment for the balance if the loan is amortized over 5 years at 8.5%.

8) A car is sold for $3000 cash down and $400 per month for the next 4 years. Find the cash value of the car today if the money is worth 8.3% compounded monthly.

9) An amount of $2300 is borrowed for 7 months at a simple interest rate of 16%. Find the discount and the proceeds.

10) Marcus has won a lottery paying him $5000 per month for the next 25 years. He'd rather have the whole amount in one lump sum today. If the current interest rate is 7.3%, how much money can he hope to get?

11) In the year 2000, an average house in Star City cost $250,000. If the average annual inflation rate for the past years has been about 4.7%, what was the price of that house in 2015?

12) Find the 'fair market' value of a ten-year $1000 bond which pays $30 every six months if the current interest rate is 7%. What if the current interest rate is 5%?

13) A Visa credit card company has a finance charge of 1.5% per month (18% per year) on the outstanding balance. John owed $3200 and has been delinquent for 5 months. How much total does he owe, now?

14) You want to purchase a home for $200,000 with a 30-year mortgage at 9.24% interest. Find a) the monthly payment and b) the balance owed after 20 years.

15) When Jose bought his car, he amortized his loan over 6 years at a rate of 9.2%, and his monthly payment came out to be $350 per month. He has been making these payments for the past 40 months and now wants to pay off the remaining balance. How much does he owe?

16) A lottery pays $10,000 per month for the next 20 years. If the interest rate is 7.8%, find both its present and future values.

***SECTION 6.7 PROBLEM SET: CHAPTER REVIEW***

17) A corporation estimates it will need $300,000 in 8 years to replace its existing machinery. How much should it deposit each quarter in a sinking fund earning 8.4% compounded quarterly to meet this obligation?

18) Our national debt in 1992 was about $4 trillion. If the annual interest rate was 7% then, what was the daily interest on the national debt?

19) A business must raise $400,000 in 10 years. What should be the size of the owners' monthly payments to a sinking fund paying 6.5% compounded monthly?

20) The population of a city of 80,000 is growing at a rate of 3.2% per year. What will the population be at the end of 10 years?

21) A sum of $5000 is deposited in a bank today. What will the final amount be in 20 months if the bank pays 9% and the interest is compounded monthly?

22) A manufacturing company buys a machine for $500 cash and $50 per month for the next 3 years. Find the cash value of the machine today if the money is worth 6.2% compounded monthly.

23) The United States paid about 4 cents an acre for the Louisiana Purchase in 1803. Suppose the value of this property grew at a rate of 5.5% annually. What would an acre be worth in the year 2000?

24) What amount should be invested per month at 9.1% compounded monthly so that it will become $5000 in 17 months?

25) A machine costs $8000 and has a life of 5 years. It can be leased for $160 per month for 5 years with a cash down payment of $750. The current interest rate is 8.3%. Is it cheaper to lease or to buy?

26) If inflation holds at 5.2% per year for 5 years, what will be the cost in 5 years of a car that costs $16,000 today? How much will you need to deposit each quarter in a sinking fund earning 8.7% per year to purchase the new car in 5 years?

27) City Bank pays an interest rate of 6%, while Western Bank pays 5.8% compounded continuously. Which one is a better deal?

28) Ali has inherited $20,000 and is planning to invest this amount at 7.9% interest. At the same time he wishes to make equal monthly withdrawals to use up the entire sum in 5 years. How much can he withdraw each month?

29) Jason has a choice of receiving $300 per month for the next 5 years or $500 per month for the next 3 years. Which one is worth more if the current interest rate is 7.7%?

30) If a bank pays 6.8% compounded continuously, how long will it take to double your money?

31) A mutual fund claims a growth rate of 8.3% per year. If $500 per month is invested, what will the final amount be in 15 years?

32) Mr. Vasquez has been given two choices for his compensation. He can have $20,000 cash plus $500 per month for 10 years, or he can receive $12,000 cash plus $1000 per month for 5 years. If the interest rate is 8%, which is the better offer?

***SECTION 6.7 PROBLEM SET: CHAPTER REVIEW***

33) How much should Mr. Shackley deposit in a trust account so that his daughter can withdraw $400 per month for 4 years if the interest rate is 8%?

34) Mr. Albers borrowed $425,000 from the bank for his new house at an interest rate of 4.7%. He will make equal monthly payments for the next 30 years. How much money will he end up paying the bank over the life of the loan, and how much is the interest?

35) Mr. Tong puts away $500 per month for 10 years in an account that earns 9.3%. After 10 years, he decides to withdraw $1,000 per month. If the interest rate stays the same, how long will it take Mr. Tong to deplete the account?

36) An amount of $5000 is borrowed for 15 months at an interest rate of 9%. Find the monthly payment and construct an amortization schedule showing the monthly payment, the monthly interest on the outstanding balance, the amount of payment contributing towards debt, and the outstanding debt.