

Finance Equations Answers

Finance Equations & Answers

Financial Math

Financial math has as its foundation many basic finance formulas related to the time value of money. In addition, particulars related to certain financial instruments (bonds for example) are calculated using derivatives of these basic formulas. Other formulas used in financial math are related to probability, randomness and statistical analysis.

Equations and Variables in Financial Formulas

One important key to understanding formulas for financial math is knowledge of what financial symbols and variables represent.

Where N = Number of Periods
 B = Balance
 g = Rate of Growth
 m = Compounding Frequency
 r = Interest Rate
 iE = Effective Interest Rate
 iN = Nominal Interest Rate
 PMT = Periodic Payment
 FV = Future Value
 PV = Present Value
 CF = Cash Flow
 j = the j th Period
 T = the terminal or last Period

Calculate the Number of Payments

$$N = \frac{-\log(1 - PV \cdot PMT)}{\log(1 + r)}$$

Convert Interest Rate Compounding Rates

iN and iE = Nominal Interest Rate with Compounding Frequency m
 iE is the real interest rate with corresponding frequency m

$$iE = \left(1 + \frac{iN}{m}\right)^m - 1$$

Calculate Effective Interest Rate:

$$iE = \left(1 + \frac{iN}{m}\right)^m - 1 \cdot 100$$

Payment Calculations

The most commonly sought payment calculation is the one for monthly payments. Of course, there are other ways payments are calculated as you can see below.

Calculate Monthly Payment

$$PMT = P \cdot \frac{r(1+r)^n}{(1+r)^n - 1}$$

Calculate Sinking Fund

$$PMT = \text{Goal} \cdot \frac{r/m}{(1 + \frac{r}{m})^{(m \cdot n)} - 1}$$

Cash Flow Series Calculations

Calculate the Present Worth Cost of a Cash Flow Series

$$PWC = \sum_{j=1}^n \frac{CF_j}{(1+r)^j} \text{ where } CF_j < 0$$

Calculate the Present Worth Revenue of a Cash Flow Series

$$PWR = \sum_{j=1}^n \frac{CF_j}{(1+r)^j} \text{ where } CF_j > 0$$

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Reviews

It is straightforward in read through preferable to fully grasp. It is really simplistic but excitement in the 50 percent of the pdf. Your life span will be enhance once you comprehensive looking at this pdf.
 (Jorge Hammes)

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