

Review for 09-29-2016

Interest Rate Conversions

Use the interest rate factor to identify the effective interest rate.

In the standard annuity formulas, we use the effective interest rate in a payment period.

Blocks of Equal Payments

In an annuity immediate, accumulate payments in the subperiods to the end of their period with $S_{m|i^*}$ where i^* is the effective rate in a subperiod. Then sum these accumulations with i the effective rate for a complete period.

In an annuity due, compile the present value at the beginning of each period with $\ddot{a}_{m|i^*}$ the proceed as above.

