

Quiz #3 - Solution

1. The outstanding loan balance just after the 5th payment is
- (a) the amount of loan principal that remains unpaid
or
(b) the present value (at $t=5$) of all future loan payments (the 15 not yet paid)
2. (a) in arithmetic progression payments change by a constant additive amount
(b) in geometric progression payments change by a constant multiplicative factor.
3. $\frac{.06}{2} = .03$ 3% is the effective half year interest rate
- $(1+i) = (1.03)^6$ produces
- $i =$ effective interest rate over a three year period (6 half years).