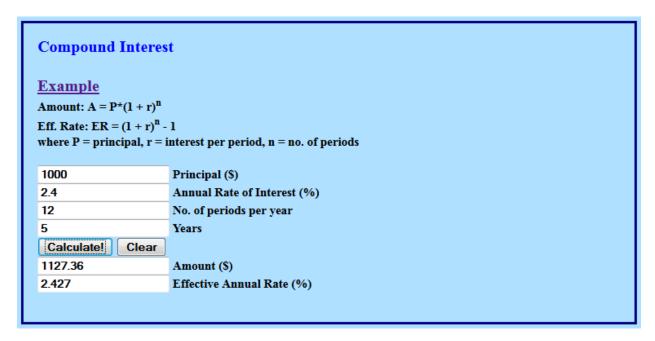
Example:



\$1,000 is invested in an account paying 2.4% interest for 5 years. At the end of 5 years the account will have \$1,127.36. The effective annual rate is 2.427%.

$$A = P(1+r)^{n}$$

$$r = \frac{0.024}{12} = 0.002$$

$$n = 5*12 = 60$$

$$A = 1000(1.002)^{60} = 1127.36174... \Rightarrow 1127.36$$

$$ER = (1.002)^{12} - 1 = 0.024265767... \Rightarrow 0.02427$$

Return to Financial Calculations