

ACCRUED INTEREST

Interest earned on the notional amount of an investment between two payment dates.

ANNUITY

An annuity is a compound interest investment from which payments are made on a regular basis for a fixed period of time. At the end of this time the investment has no residual value.

BASIS POINT

A unit of measure. One basis point is one hundredth of a percentage point.

CALCULATION PERIOD

The number of days between payment dates or between the effective date and the first payment date. A calculation period is typically adjusted for payment dates that are bad business days but may also be unadjusted. Normally indicates the period for which financing costs/debt servicing are calculated/accrued.

CASH FLOW DURATION

The weighted average of the present value of cash flows or the sensitivity of the value of a given set of cash flows to changes in interest yields.

CLEAN PRICE

The price of a bond excluding any accrued interest.

COMPOUNDING

The process by which the value of an investment increases by adding the accumulated interest back on the principal amount. In effect, the investment is earning interest on interest as well as principal.

COMPOUND INTEREST

The interest earned by investing a sum of money (the principal) is compound interest if each successive interest payment is added to the principal for the purpose of calculating the next interest payment.

COST BASIS

The original price of an asset, such as stocks, bonds.

COUPON

The rate of interest paid on a security, expressed as a percentage of the principal value or as a floating rate based.

CURRENT VALUE

The value at some point in time of monies to be paid and monies which have been paid.

DISCOUNT

Interest has been so far defined as the payment required at the end of the period, however there is also the rate of discount, denoted by d , which is a measure of the interest paid at the beginning of the period.

EFFECTIVE ANNUAL RATE OF INTEREST

The effective annual rate of interest i effective is used to compare the interest paid on loans (or investments) with the same nominal annual interest rate i but with different compounding periods (daily, monthly, quarterly, annually, other).

FUTURE VALUE

The value at some point in the future of payments made in the past.

INFLATION

Inflation – represents loss of purchasing power over time. Positively correlated with rates of interest (actually between current rate of interest and *expected* rate of inflation).

INTEREST

A basic definition of interest is the price paid for obtaining, or price received for providing, money or capital in a credit transaction.

INTEREST RATE (RATE OF INTEREST)

An interest rate or the rate of interest is how much is paid by a borrower as expressed as a percent of the borrowed capital.

PERPETUITY

A perpetuity is a compound interest investment from which payments are made on a regular basis in perpetuity (forever). This is possible because the payments made at the end of each period exactly equal the interest earned during that period.

PRESENT VALUE

The value now of monies to be paid in the future.

RATES OF INTEREST:

simple-investment in which amount of interest earned in each time period is constant. $a(t) = 1 + it$;

compound-interest earned in an investment is reinvested. Interest is earned on interest. Total investment (principal and interest is kept invested) $a(t) = (1+i)^t$;

discount-ratio of the amount of interest earned during the period to the amount invested at the *end* of the period. $d = I/A(n)$;

real-rate of interest after eliminating inflation ;

nominal – actual rate of interest in the market .