# MBA620/Fin 418-30 Day 30 Terminology – Time Value of Money 1

# Sudweeks

**Amortized loan.**  A loan paid off in equal installments composed of both principal and interest. It may also be called an installment loan.

**Annuity**. A series of equal payments; these payments are made at the end of a specific time period for a specified number of time periods (generally months or years).

**Compound annuity**. An investment that involves depositing the same amount of money at the end of each year for a certain number of years.

**Compound Interest.** Compound interest is where interest is calculated not only on the initial principal but also on the accumulated interest earned in prior periods. The magic of compound interest is that you earn interest on money earned in previous periods.

**Compounding (annually, quarterly, daily, etc.):** The number of periods during the year where interest is calculated. Compound interest is where interest is paid on previously earned interest as well as on the principal. The shorter the compounding period, the higher the effective annual rate of interest.

**Effective interest rate.** The actual rate (as opposed to the stated or nominal rate) that is received after the effects of compounding are taken into account.

**Financial Investments.** These are equity or debt investments including stocks (or equities), bonds, mutual funds, cash, treasury bills and notes, options, futures, and so on.

**Future value (FV).** The value of an investment at some point in the future.

**Inflation.** An increase in the volume of available money in relation to the volume of available goods and services; inflation results in a continual rise in the price of various goods and services. In other words, because of increased inflation, your money can buy fewer goods and services today than it could have bought in the past.

**Interest or discount rate.** The stated rate you will receive for investing at a specified compounding period for a specified period of time.

**Investment.** The current commitment of money or other resources with the expectation of reaping future benefits.

**Minimum Payment.** The minimum amount of payment required by credit card companies each month. The credit card companies purposefully keep these as low as possible, in order to maximize the amount that they earn in interest.

**Nominal return.** The return on your investment before the impact of inflation and taxes is taken into account.

**Present value (PV).** The current value (today’s value) of a future sum of money.

**Principal.** The money you have available to invest or save, or the stated amount on a bond or deposit instrument.

**Real return**. The rate of return on an investment after the impact of inflation is accounted for. The formula for approximating the real return is the nominal return minus inflation. The exact formula for the real return is= [(1+ nominal return) / (1 + inflation)] – 1.

**Simple interest.** Interest is paid only on your original principal.

**Tax-adjusted (or after-tax) return.** The return on your investment after the impact of federal and state taxes has been taken into account.