Financial Vocabulary

Principal or Present Value – A sum of money that is borrowed or invested.

Interest – Cost of borrowing money or the money earned on an investment.

Amount or Future Value – Total value of an investment equal to the sum of the principal and interest.

Simple Interest – Interest paid only on the original sum of money borrowed or invested.

Compound Interest – Interest that is added to the principal before new interest is calculated.

Compounding Period or Conversion Period – The intervals at which interest is calculated:

- Annually – once per year (per annum, pa)
- Semi-annually – twice per year
- Quarterly – four times per year
- Semi-monthly – twenty-four times per year (every half month)
- Monthly – twelve times per year
- Bi-weekly – twenty-six times per year (every second week)
- Weekly – fifty-two times year
- Daily – three-hundred-and-sixty-five times per year

Annuity – Series of payments made at regular intervals. Payments coincide with the compounding period and are made at the end of the interval.

Loan – Borrowed money to purchase a higher priced item.

Collateral – Item that you can use to cover a debt. Eg the car is the collateral for a car loan. If you default on the loan the bank can seize the car.

Down Payment – Amount of money that you pay to reduce the principal.

Finance Amount – Amount of money that you borrow. It's the difference between the purchase price and the down payment.

FORMULAE:

$I = Prt \qquad A = P(1 + i)^n \qquad P = A(1 + i)^{-n}$

$$FV = R\left(\frac{(1+i)^n - 1}{i}\right) \qquad PV = R\left(\frac{1-(1+i)^{-n}}{i}\right)$$