Lecture Notes 2

Concepts and Tools for Portfolio, Equity Valuation, Fixed Income, and Derivative Analyses: 
Applications to Savings/CDs, Loans/Mortgages

I. Readings
II. What is an Interest Rate?
III. Time Line
IV. Investing for a Single Period
V. Single Cash Flow, Multiple Periods, and Future Value
VI. Single Cash Flow, Multiple Periods, and Present Value
VII. Equivalent Effective Interest Rates Over Different Compounding Periods.
VIII. Alternate Interest Rate Concepts
IX. Multiple Cash Flows.
X. A Particular Cash Flow Pattern: Annuity
XI. A Particular Cash Flow Pattern: Perpetuity

XII. Appendix & Additional Readings

Buzz Words: Time Value of Money, Equilibrium, Arbitrage, Perfect Creditworthiness (No Credit Risk, No Default Risk), Locked-in Rates, Discounting, Compounding, EAR, APY, APR, Continuous Compounding, Basis Point, Zeros.
I. Readings

RWJ Chapters 4 and 5.

Web: http://www.fidelity.ca/fidelity/cda/ext_app/growth_calculator_eng/ Investment Growth Calculator: treat the “Rate of Return” as an interest rate, and enter values to visualize the power of compounding.