cipal, 10% Interest, 4-Year

ments

Principal [(2) − (3)] (4)	End-of-year principal [(1) − (4)] (5)
$1,292.82	$4,707.18
1,422.10	3,285.08
1,564.31	1,721.77
1,720.74	—[a]

inning-of-year-4 principal

	B
	Y A LOAN
	$6,000
	10%
	4
	$1,892.82

,B2).
because
itflows.

D	E
HEDULE	
$6,000	

FINDING INTEREST OR GROWTH RATES

It is often necessary to calculate the compound annual interest or *growth rate* (that is, the annual rate of change in values) of a series of cash flows. Examples include finding the interest rate on a loan, the rate of growth in sales, and the rate of growth in earnings. In doing this, we again make use of Equation 5.4. In this case, we want to solve for the interest rate (or growth rate) representing the increase in value of some investment between two time periods. Solving Equation 5.4 for r we have