Math 034 Terminology

Chapter 1
Interest – what a borrower pays a lender to use the lender’s money
Principal – the amount borrowed
Simple interest – interest that is paid only on the original principal
Debtor – someone who owes someone else money (borrower)
Creditor – someone to whom money is owed (lender, banker, landlord)
Term – the amount of time for which a loan is made
Demand accounts – checking and savings accounts
Exact method – calculating interest based on the actual number of days in the calendar year (365)
Banker’s rule – calculating interest based on 360 days in the calendar year

Chapter 2
Discount – the amount a lender subtracts from the maturity value
Proceeds – the result that the lender pays to the borrower
Face value – the maturity value of a discount note

Chapter 3
Compound interest – interest that is paid on the original principal and any accumulating interest
Present value – the starting amount of a loan
Future value – the ending amount of a loan
Rule of 72 – used to compute the approximate amount of time required for a sum of money to double
Nominal rate – the original interest rate
Effective interest rate – the annually compounded rate which produces the same results as a given interest and compounding

Chapter 4
Annuity - any collection of equal payments made at regular time intervals
Annuity’s future value - a sum of money to which an annuity’s payments and interest accumulate in the end
Annuity’s present value - a sum of money paid at the beginning of an annuity
Ordinary annuity – an annuity whose payments are made at the end of each time period
Annuity due - an annuity whose payments are made at the beginning of each time period
Future value annuity factor - the future value that would accumulate if each annuity payment was $1
Present value annuity factor – the present value if each annuity payment was $1
Sinking fund - an annuity for which the amount of the payments is determined by the future value desired
Amortization – the process of repaying a loan by making all payments of equal size
Amortization table – provides a payment-by-payment detail of how each dollar paid on a loan is allocated

Chapter 7
Dividend yield – expressing a stock’s dividend rate as a percent to make comparisons more meaningful
Yield to maturity – measure of a bond’s interest rate that will be earned assuming the bond is held to maturity
Junk bonds – bonds of issuers whose ratings suggest there is cause for concern
Net asset value – value of one share of a mutual fund
Investment portfolio – a mix of investments in different securities
Asset allocation – how an investor decides to divide his portfolio among different asset classes
Open end – a type of mutual fund that does not have a fixed number of shares
Load – a fee paid when a mutual fund is purchased

Chapter 8
Defined benefit plan – retirement program that provides a set income in retirement
Defined contribution plan – employer contributes money to a retirement account for each employee on the basis of some set formula
Vested – what you become in a retirement plan when you accumulate a certain number of years of service
Step-vesting – tells what percent of benefits you are entitled to when you leave and depends on your years of service
IRA – a special type account that can be set up by an individual to save for retirement
Roth IRA – contributions to this IRA are not tax deductible but their investment growth is not taxed while the money is in the account
401K – type of retirement account offered as a benefit by employers and money contributed to this account is not included in taxable income
Inflation – the tendency of prices to rise over time

Chapter 9
Markup based on cost – determining the price for an item by taking the cost of the item and adding on a predetermined percent of the item’s cost
Gross profit – difference between what an item cost and what it is sold for
Net profit – the profit made after taking into account all of the expenses of doing business
Profit margin – profit expressed as a percent of the selling price
Markup based on selling price – determining the price for an item by using a target gross margin Appreciation – the increase in something’s dollar value price
Depreciation – the decline in something’s dollar value price
Straight-line depreciation – the price declines by the same dollar amount each year

Chapter 10
Sales tax – imposed by state and/or local governments on retail sales
Taxable income – the portion on income subject to tax
Exemption – an amount of nontaxable income for each person who can be claimed as a dependent
FICA – Federal insurance contributions act (includes social security and medicare)

Chapter 11
Unsecured loan – loan issued without any collateral (a credit card is an example of this)
Average daily balance method – most common method for calculating interest on a credit card
Mortgage – loan secured by real estate
Foreclosure – a legal process by which the lender has the right to take real estate
Fixed-rate mortgage – interest rate is set at the beginning and never changes
Adjustable-rate mortgage – interest rate is fixed for a certain time period and then the rate can change
PITI – total mortgage payment that includes the principal, interest, taxes and insurance
Points – a fee paid to a lender up front in exchange for a lower interest rate
Residual value – the amount a car is worth at the completion of a lease agreement