

## CHAPTER OVERVIEW

### 21: Interest Rates

#### Learning Objectives

By the end of this chapter, students should be able to:

- Define interest and explain its importance.
- Write and explain the present value formula.
- Write and explain the future value formula.
- Calculate present and future value for multiple periods with annual and more frequent compounding.
- Define and price major types of debt instruments including discount bonds, simple loans, fixed payment loans, coupon bonds, and perpetuities.
- Define yield to maturity and identify the types of financial instruments for which it is relatively easy to calculate.
- Explain why bond prices move inversely to market interest rates.
- Explain why some bond prices are more volatile than others.
- Define rate of return and explain how it differs from yield to maturity.
- Explain the difference between real and nominal interest rates.

[21.1: The Interest of Interest](#)

[21.2: Present and Future Value](#)

[21.3: Compounding Periods](#)

[21.4: Pricing Debt Instruments](#)

[21.5: What's the Yield on That?](#)

[21.6: Calculating Returns](#)

[21.7: Inflation and Interest Rates](#)

[21.8: Suggested Reading](#)

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