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## Compound interest questions and answers pdf in hindi

Compound interest has a snowball effect on the money you invest or borrow: it speeds up your savings. Understanding compound interest can help you make good investment decisions. However, it also speeds up your debts, so a good understanding of the concept can help you avoid bad debt situations. When you save money in your bank account, you will make an investment decision. Usually, your daily bank account has a lower interest rate return than other accounts, but you choose to use it because you can easily access your money with minimal fees. Alternatively, you can make your money can work a little harder for you by choosing a financial product that earns you a higher interest rate. You can choose a high-interest savings account or a term deposit. It is usually harder to withdraw your money if you invest it for a higher return, and there are higher fees to do so. malerapaso /Getty Images The money you invest is called your principal. The money you earn on the investment is your return. Investors are always looking to maximize their returns. Banks encourage you to invest your money with them. When you invest, they lend that money from earning extra fees. There is a continuous cycle of loans, loans and repayments between banks and their many customers. To compensate you for your investment with them and for their use of your money while it is in the account, the bank pays you interest. IR\_Stone/Getty Images The return paid by the bank on your savings and term deposits is called interest. You receive this as a percentage of your investment. Imagine putting \$100 into your bank account for a year. With an interest rate of 10 per cent, at the end of the year, the bank will pay you \$10 in interest. You now have \$110, consisting of \$100 plus \$10 interest. Let's say you invest \$100 in the bank for five years. You earn \$10 in interest each year. In the end, you have \$150, including \$100 in capital plus five interest lots at \$10 each. Marchmeena29/Getty Images The easiest way to think about compound interest is if you gain interest in your interest, as well as your principal. Using the previous example, imagine at the end of the first year you hand over your \$10 interest into your bank account. Your capital for the second year now turns to \$110 (\$100 plus \$10). Thus, your interest earned for the second year is \$11, instead of the \$10 calculated using interest You can see how your money grows faster when you earn interest on your interest, as well as on your capital. RomoloTavani/Getty Images Your five-year compound interest calculation is: year 1: invest \$100, earn \$10 interest; year-end balance: \$110.2: invest \$110, earn \$11 interest; year-end balance: \$121.3: invest \$121, earn \$12.10 interest; year-end balance: 133.10 .10, year 4: invest \$133.10, earn interest of \$13.31; \$; year-end: \$146.41 .41. Year 5: invest \$146.41, earn \$14.64 in interest; year-end: \$161.05. The amount of interest you earn each year is higher because you earn money on the initial amount of capital plus the interest you have earned in previous years. Sosb/Getty Images Earning interest earlier helps your compound interest accelerate faster. Save your money as soon as possible, choose a compound interest investment method and look for an option where your interest payments occur more frequently. Deposit \$100 on a monthly basis with a 10 per cent interest rate, and you will earn about 83 cents of interest in the first month. Add that to your capital, and you have \$100.83 to invest for the second month, earning about 84 cents in interest. The interest you earn is higher each month. At the end of the first year, you have about \$110.47 in your account. hyejin kang/Getty Images Compound Interest also affects debt, such as credit card balances, auto loans, and home loans. Since you pay interest to the bank on the debt, you must make your repayments as soon as possible and defer interest charges for as long as possible. Otherwise, your debt snowballs in the same way as your investments or savings - but to the benefit of the bank. Avoid this by paying your credit card balance monthly. Some financial institutions charge interest on the initial amount borrowed for the duration of the loan, so your interest payments do not reduce as you pay off your debt. Watch this when considering the loan terms. Eloku/Getty Images We know we should always seek to maximize savings and minimize debt, but sometimes it's hard to decide what to do first. Debt usually attracts higher interest rates than savings, so it often makes financial sense to pay off your debts before you start saving. There are cases where you can choose to save first. You may not have access to your money once you use it to pay off your debts. When you need money to pay for future expenses, it may be best to put it in your savings account. This way, you earn a little interest before your bills are due. Check the rules and fees on your accounts, or consult a financial advisor to make the best decision based on your situation. anyaberkut/Getty Images That an investment pays simple interest or aggravates interest profits has a significant impact on future value of this investment. With a simple interest investment, you earn the same amount of interest each period; monthly, semi-annual or annually. Investment leads to growth in investment values and increased investment flows over time. For investors, the income stream of an investment can be interest or dividends, depending on the type of investment. Investment bonds -- government, municipal or corporate -- pay simple interest. The coupon rate of a bond details the amount of interest a bond pays. For a \$100,000 bond with a coupon rate of 6 per cent will pay an investor \$3,000 every 6 months until the bond matures. At maturity, the nominal amount of \$100,000 will be paid to the investor. As a simple interest offering, interest of \$6,000 will be earned each year, not increased. An exception to bonds that pay simple interest are zero-coupon bonds. These bonds are purchased at a discount to face value and interest is earned as the value of the bond increases towards maturity value. For example, at the time of publication, a \$100,000 zero-coupon Treasury band could be purchased for \$61,926. The 3.22 per cent yield on this bond is a compound interest rate to bring the bond to the total value of \$100,000 over 15 years. U.S. savings bonds, in the form of Series EE and Series I bonds, earn compound interest, which will grow up to 30 years after the purchase of a bond. Series EE bonds earn a fixed interest rate for the life of a bond. Series I bonds earn adjusted interest every 6 months for the rate of inflation. Both types of savings bonds earn and accumulate monthly interest. Interest on these bonds is growing semi-annually. Shares and exchange-traded funds -- ETFs -- shares held in a brokerage account earn simple interest in the form of dividends. Dividends from these types of investments will be credited to the cash balance of an investor's brokerage account. For dividend profits to continue to work, an investor must use money from his brokerage fund balance to purchase additional shares or ETFs. A mutual fund account allows an investor to elect the automatic reinvestment of a fund's dividends into a larger number of shares in the fund. This feature allows investments in bonds or shares with simple interest to become compound investments. A mutual fund is required to pay the interest or dividends earned by the fund's portfolio to investors in the form of dividends. Most bond mutual funds pay monthly dividends and many equity mutual funds pay quarterly dividends, all of which can be reinvested to exacerbate the growth of a fund account. Investing takes a lot of time and effort. In order to choose the right combination of stocks, bonds and cash investments for your portfolio, you will need to spend some time researching your options. And unless you plan to put your investments on the you'll need to take the time to rebalance your wallet and make sure the fees don't eat away at your winnings. Depending on the investments you have, it may take time to see the kind of returns you are looking for. In the meantime, you might be able to count on something known as compound interest. Check out our investment calculator. What you need to know about compound interestCompound interest is a powerful tool for investors. Interest is essentially the fees you pay to borrow or the fees you charge to give someone else access to your invested investment Compound interest is defined as interest generated by existing profits. When interest gets worse, you earn interest on the money you invest (or save) and earn interest in addition to the interest you previously earned. If you don't have a compound interest investment or savings account, you probably have one that earns simple interest. The main difference between simple interest and compound interest lies in the fact that simple interest does allow you to earn interest on the money you originally put into an account.Compound interest is not only relevant to investors and super savers. It's also an important factor to consider when you're under-considering a loan. If a

borrower has a compound interest loan, any accrued interest ends up being added to the outstanding loan balance. With this extra interest, your loan balance increases and you end up paying interest in addition to the interest you already owe. On the other hand, if you have a loan with a simple interest rate, the interest does not get worse and you are only required to pay interest on the balance of the main loan. Calculation of Compound Interest Look at the compound interest formula: [P (1 -i)^n] - P. In the formula, P represents the balance or investment of your principal loan and I represent your interest rate. Part of what gives compound interest its immense power is n, or the number of times that compounds of interest. The more frequent the interest compounds, the faster your investment or savings can grow. As you weigh the added and cons of sticking your money into one savings account on another, you will see that some have interest that compounds monthly or every day while others have interest that gets worse twice a year, quarterly or annual. When interest accrues more than once a year, interest is said to increase periodically. In the simple interest formula, there is no composition. To calculate the simple interest, you just have to multiply the capital by the interest rate. From there, you can multiply the product by the length of time you save or invest. Related article: The SmartAsset Guide on Interest RatesWondering how interest is compounded? We'll give you an example. Suppose you buy a five-year certificate of deposit that gets worse annually at an interest rate of 2.25%. If you deposit \$1,000 into this account after the first year, you will earn \$22.50 in interest. After two years, you will get \$45.51 in interest. After five years, you'll get \$117.68 in interest. Our example shows that the interest you earned in the first year (\$22.50) generates its participation at the end of the second year. This process continues year after year until you withdraw your winnings. Types of compound interest Continuing interest is a compound type of interest. When there is a continuous composition, interest increases Stop. Interest is constantly accumulating endlessly, making the composition period relatively small as the amount of interest continues to rise. The continuous composition formula is P x e<sup>rt</sup>. In this equation, P refers to the main amount, r refers to the interest rate and t refers to the rate of time, in years. The e value represents the base rate and the idea that something is growing. If you are doing research, you might have the chance to meet a bank account with interest that is composed continuously. Related article: Everything you need to know about InterestThe TakeawayWith a compound interest, investors can watch their funds grow at a rapid rate as their interest gains interest over time. The frequency of the composition is important. This means that the interest that monthly or quarterly compounds will increase faster than interest that compounds only twice a year. An investor who finds an investment opportunity with interest that worsens on a regular basis (or even permanently) has a significant advantage over an investor working with a simple interest rate. Photo credit: ©iStock.com/erierika, ©iStock.com/fotostorm, ©iStock.com/sosb ©iStock.com/sosb

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