Vocabulary: Compound Interest



**Vocabulary**

* Annual percentage yield (APY) – the actual rate earned or paid in one year, considering the effect of compounding interest.
* Compound interest – interest paid on the principal plus the interest earned in previous periods of a deposit or loan.
* For compound interest, the balance *B* is given by the formula *B* = *P*(1 + )*nt*, where *P* is the principal, *r* is the interest rate, *n* is the number of times interest is compounded per year, and *t* is the number of years.
* When interest is compounded continuously (when *n* goes to infinity), then the balance *B* is given by the formula *B* = *P* • *ert*.
* Exponential function – a function of the form *y* = *a* • *bkx*, where *a* ≠ 0, *b* > 0, and *b* ≠ 1.
* The formula for compounded interest is an exponential function.
* Interest – the amount charged for borrowing money, or paid on invested money.
* Interest rate – the percent of interest paid on a deposit or charged on a loan.
* Principal – the amount of money initially deposited or borrowed.