## **Rules for Decoding Interest Rate Statements**

Assume that all interest rates are nominal rates unless you're told otherwise.
Assume the compounding frequency is m = 1 unless you're told otherwise.
Assume that the time period of interest is a year unless you're told otherwise.

## **Examples**

"12% per year" implies that r = 12% per year and m = 1, so

i = r/m = 12%/1 = 12% per year

"12% compounded monthly" implies that r = 12% per year and m = 12, so

i = r/m = 12%/12 = 1% per month

"12% APY compounded monthly" implies that  $i_{eff}$  = 12% per year and m = 12, so

 $i_{eff} = 12\% = (1 + i)^{12} - 1 \implies i = (1 + 0.12)^{1/12} - 1 = 0.95\%$  per month