

FIN101 Introduction to Finance Practice Questions - II
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Information for Questions 1 to 3: Suppose you borrow \$500,000 to buy a house. The interest rate which the bank offers you is .75% per month for a 30 year loan.

Question 1) Your monthly payments will be:

- A) 3,582
- B) 3,737
- C) 3,983
- D) 4,005
- E) 4,023

Question 2) After having lived in the house for 4 years and 2 months and having made the previously calculated monthly payments to the bank, you decide to change jobs and move. How much remaining principal of the loan will you have left to pay? (Assume that you have paid for the first 50 months. Do not include the payment for the 50th month in the remaining principal).

- A) 483,505
- B) 503,505
- C) 523,505
- D) 543,505
- E) 563,505

Question 3) What would your monthly payments be if the loan amount and rate of interest remain unchanged but the payments were an Annuity Due rather than an Annuity?

- A) 3,872
- B) 3,993
- C) 4,027
- D) 4,053
- E) 4,199

Information for questions 4 and 5. You take a mortgage loan for \$10,000 for 20 years (monthly repayments). The rate of interest is 0.6% per month.

Question 4) What are your monthly payments?

- A) 70.815
- B) 75.775
- C) 78.735
- D) 81.195
- E) None of the Above

Question 5) If you want to prepay the loan at the end of the 40th month, what is

principal left to be repaid? The monthly payment for the 40th month is not included in the answer.

- A) 8,122
- B) 8,835
- C) 9,156
- D) 9,493
- E) None of the Above

Answer Key:

- 1) E
- 2) A
- 3) B: Annuity Due requires payments one period earlier.
Correspondingly the monthly payments have to be smaller by a factor of $(1+r)$ as \$1 paid earlier is more valuable than \$1 paid later.
- 4) C
- 5) C

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