RULE 1: TABLE FACTORS AND FORMULA EQUivalents require the 
INTEREST RATE PERIOD AND PAYMENT PERIODS TO MATCH 
(i and n must match)

RULE 2: No interest is paid until money has been invested 
for a full compounding period

n is shorter \( \Rightarrow \) if payments happen more frequently than 
compounding occurs, match \( n \) to \( i \):

Add together all payments that happen 
between compounding periods into a single 
payment that corresponds to the start of 
a compounding period

n is longer \( \Rightarrow \) if compounding happens more frequently than 
payments occur, match \( i \) to \( n \) by following 
all steps of Rule 2. Use 3A if compounding 
continuously, or use 3B if discrete compounding.

RULE 3: Find an effective rate for the longer period

3A: \( \Rightarrow \) if continuous compounding,

\[
i = e^r - 1 \]

\( i \) is effective rate per longer period 
\( r \) is nominal rate per year 
yr is the longer period, expressed 
in decimal years

3B: \( \Rightarrow \) if discrete compounding,

STEP 1: Find effective rate per compounding period:

\[
i = \frac{r}{m} \]

\( i \) is effective rate per compounding period 
\( r \) is nominal rate per longer period 
m is number of compounding periods 
per (nominal rate) longer period

STEP 2: Use \( i \) to find an effective rate for the longer period

\[
(1 + i)^m - 1 \]

\( i \) is effective rate per compounding period 
\( (1 + i) \) is effective rate per compounding period 
m is number of compounding periods 
per longer period

Notes: - Sometimes step 2 is not necessary, but it won't hurt
- Sometimes the longer period is not the same in 
both steps. In step 1, the longer period matches the 
nominal rate. In step 2, the longer period matches 
the problem requirement (payment period or yield period)