

# MATHEMATICS QUESTIONS BY TOPICS



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## FINANCIAL MATHEMATICS

20 Extended Answer questions with curriculum references and detailed answers

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## Mathematics Questions by Topics

### Financial Mathematics - Extended Answer

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#### Index – Click on the question.

Q	Topic	Australian Curriculum Reference	Q	Topic	Australian Curriculum Reference
1	Recursion and financial arithmetic	ACMGM071 ACMGM073	11	Compound interest, loans and investments	ACMGM096
2	First order linear recurrence relations	ACMGM070 ACMGM077	12	Depreciation of assets	ACMGM070
3	Compound interest, loans and investments	ACMGM096	13	Geometric sequence	ACMGM071 ACMGM073
4	Geometric sequence	ACMGM071 ACMGM073	14	Loans, investments and annuities	ACMGM098
5	Loans, investments and annuities	ACMGM070 ACMGM095 ACMGM098	15	Compound interest, loans and investments	ACMGM096
6	Annuities and Perpetuities	ACMGM099 ACMGM100	16	Recursion and financial arithmetic	ACMGM071 ACMGM073
7	Geometric sequence	ACMGM071 ACMGM073	17	Geometric sequence	ACMGM071 ACMGM073
8	Depreciation of assets	ACMGM070 ACMEM174	18	Geometric sequence and Arithmetic sequence	ACMGM070 ACMGM074
9	Loans and compound interest	ACMEM173	19	Depreciation of assets	ACMGM070 ACMGM074
10	Growth and decay in sequences	ACMGM067 ACMGM071	20	Loans, investments and annuities	ACMGM096

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## Mathematics Questions by Topics

Page 1

Financial Mathematics - Extended Answer

Question 1

Source: K21FM2Q5

### Question 1 (7 marks)

Jeff runs a business in which he does the final stitching on quilts with a quilting machine. Jeff chooses the reducing balance method to calculate the depreciation on his new quilting machine.

The value of the quilting machine, in dollars, after  $n$  years,  $Q_n$  can be modelled by the recurrence relation:

$$Q_0 = 27000, \quad Q_{n+1} = 0.91Q_n$$

- a. What amount, in dollars, did Jeff pay for the new machine?

1 mark

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- b. Show, with recursion, that the value of the machine after 2 years is \$22358.70 by filling in the boxes below with the appropriate values.

2 marks

$$Q_0 = 27000$$

$$Q_1 = \boxed{\phantom{00000}} \times 27000 = \boxed{\phantom{00000}}$$

$$Q_2 = \boxed{\phantom{00000}} \times \boxed{\phantom{00000}} = \boxed{\phantom{00000}}$$

- c. What is the annual percentage rate of depreciation used by Jeff?

1 mark

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**Mathematics Questions by Topics**

Page 2

Financial Mathematics - Extended Answer

Question 1

Source: K21FM2Q5

**Question 1 (continued)**

- d. After how many years will the value of Jeff's quilting machine first fall below \$12000?

1 mark

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A rule of the form  $Q_n = a \times b^n$  can be used to determine the value, in dollars, of the quilting machine,  $Q_n$ , after  $n$  years.

- e. Write down this rule for  $Q_n$ .

1 mark

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Jeff claims the machine's depreciation as a tax deduction each year.

- f. By how much does the machine depreciate during the fourth year?  
Give your answer to the nearest whole dollar.

1 mark

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**END OF QUESTION 1**

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## Mathematics Questions by Topics

Page 3

Financial Mathematics - Extended Answer

Question 1

Source: K21FM2Q5

Curriculum	Subject	Topic	Description
Australia	General Mathematics Unit 3	Geometric sequence	Use recursion to generate a geometric sequence (ACMGM071) Deduce a rule for the $n$ th term of a particular geometric sequence from the pattern of the sequence and use this rule to make predictions (ACMGM073)
Victoria	General Mathematics Unit 2	Recursion and financial arithmetic	The concept of geometric sequence as a function and its recursive specification
New South Wales	Mathematics Advanced Stage 6	Geometric sequences and series	Recognise and use the recursive definition of a geometric sequence: $T_n = rT_{n-1}, T_1 = a$

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## Mathematics Questions by Topics

Financial Mathematics - Extended Answer

Question 20

Page 2  
Source: K15FM2Q3

Curriculum	Subject	Topic	Description
Australia	General Mathematics Unit 4	Loans, investment, annuities	With the aid of a calculator or computer based financial software, solve problems involving compound interest loans or investments; for example, determining the future value of a loan, the number of compounding periods for an investment to exceed a given value, the interest rate needed for an investment to exceed a given value. (ACMGM096)
Victoria	General Mathematics Unit 3,4	Compound interest investment	Use of technology with financial modelling functionality to solve problems involving annuity investments, including determining the future value of an investment after a number of compounding periods, the number of compounding periods for the investment to exceed a given value and the interest rate or payment amount needed for an investment to exceed a given value in a given time.
New South Wales	Mathematics Advanced Stage 6	Financial Mathematics	Use an online calculator to investigate the effect of the interest rate, the repayment amount or the making of an additional lump-sum payment, on the time taken to repay a loan

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MATHEMATICS QUESTIONS BY TOPICS  
FINANCIAL MATHEMATICS  
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#### Index – Click on the answer. ACR = Australian curriculum Reference

Q	Topic	ACR	Q	Topic	ACR
1	Recursion and financial arithmetic	ACMGM071 ACMGM073	11	Compound interest, loans and investments	ACMGM096
2	First order linear recurrence relations	ACMGM070 ACMGM077	12	Depreciation of assets	ACMGM070
3	Compound interest, loans and investments	ACMGM096	13	Geometric sequence	ACMGM071 ACMGM073
4	Geometric sequence	ACMGM071 ACMGM073	14	Loans, investments and annuities	ACMGM098
5	Loans, investments and annuities	ACMGM070 ACMGM095 ACMGM098	15	Compound interest, loans and investments	ACMGM096
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9	Loans and compound interest	ACMEM173	19	Depreciation of assets	ACMGM070 ACMGM074
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**Mathematics Questions by Topics**  
Financial Mathematics - Extended Answer

Source: K21FM2S5

**Question 1 (7 marks)**

<p><b>a.</b></p> <p><b>\$27000</b></p> <p>(1 mark)</p>	<p><b>b.</b></p> $Q_1 = 0.91 \times 27000 = 24570$ $Q_2 = 0.91 \times 24570 = 22358.70$ <p>(2 marks)</p>
<p><b>c.</b></p> <p><math>100 - 91 = 9\%</math></p> <p>(1 mark)</p>	<p><b>d. 9 years</b></p> <p>By continuing to multiply by 0.91, we get</p> $Q_8 = 12696.8 \dots$ $Q_9 = 11554.1 \dots$ <p>Alternatively, solving the equation</p> $27000 \times 0.91^n \leq 12000$ <p>gives <math>n \geq 8.5984 \dots</math></p> <p>Now in this problem, <math>n</math> takes integral values, so <math>n = 9</math>.</p> <p>(1 mark)</p>
<p><b>e.</b></p> $Q_n = 27000 \times 0.91^n$ <p>(1 mark)</p>	<p><b>f. \$1831</b></p> $Q_3 = 20346.417 \dots$ <p>During the fourth year, the machine will depreciate by 9% of 20346.417... i.e. \$1831 to the nearest dollar.</p> <p>(1 mark)</p>

**END OF ANSWERS TO QUESTION 1**

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**Mathematics Questions by Topics**  
Financial Mathematics - Extended Answer

Source: K15FM2S3

**Question 20 (4 marks)**

<p><b>a.</b></p> <p>Use TVM solver  <math>N = 18 \times 12</math>  <math>I = 5.2</math>  <math>PV = 332000</math>  <math>PMT =</math>  <math>FV = 0</math>  <math>P/Y = 12</math>  <math>C/Y = 12</math>            This gives <math>PMT = \\$2370</math></p> <p style="text-align: right;">(1 mark)</p>	<p><b>b.</b></p> <p>Use TVM solver  <math>N = 60</math>  <math>I = 5.2</math>  <math>PV = 332000</math>  <math>PMT = -2370.0769</math>  <math>FV =</math>  <math>P/Y = 12</math>  <math>C/Y = 12</math>            This gives <math>FV = \\$268334</math>            Amount owing = <math>268334 - 150000 =</math>  <math>\\$118,334</math></p> <p style="text-align: right;">(1 mark)</p>
<p><b>c.</b></p> <p>Use TVM solver  <math>N =</math>  <math>I = 5.2</math>  <math>PV = 118334</math>  <math>PMT = -1916</math>  <math>FV = 0</math>  <math>P/Y = 12</math>  <math>C/Y = 12</math>            This gives <math>N = 72</math>            72 months = 6 years.</p> <p style="text-align: right;">(1 mark)</p>	<p><b>d.</b></p> <p>Actual time of repayment will be a little over 72 months.</p> <p>Use TVM solver  <math>N = 72</math>  <math>I = 5.2</math>  <math>PV = 118334</math>  <math>PMT = -1916</math>  <math>FV =</math>  <math>P/Y = 12</math>  <math>C/Y = 12</math>            This gives <math>FV = -63.93631138</math></p> <p>Use TVM solver  <math>N = 1</math>  <math>I = 5.2</math>  <math>PV = 63.93631138</math>  <math>PMT =</math>  <math>FV = 0</math>  <math>P/Y = 12</math>  <math>C/Y = 12</math>            This gives <math>FV = \\$64.22</math></p> <p style="text-align: right;">(1 mark)</p>

**END OF ANSWERS TO QUESTION 20**

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Source: K15FM2S3

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## Mathematics Questions by Topics

Page 1

Financial Mathematics - Extended Answer

Question 2

Source: K21FM2Q6

### Question 2 (3 marks)

Jeff buys a second quilting machine. The initial value of this machine is \$36000.

He decides to depreciate the machine using the unit cost method.

The machine quilts 340 pieces each year.

After five years, the value of the machine is \$20700.

- a. **Show** that the machine depreciates by \$9 for every piece it quilts.

1 mark

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- b. Let  $V_n$  be the value of the machine after  $n$  years.

Write down a recurrence relation, in terms of  $V_0$ ,  $V_{n+1}$  and  $V_n$  that could be used to model the value of the machine using this unit cost depreciation method.

1 mark

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- c. The value of the machine continues to depreciate by \$9 for every piece quilted.

The machine has a scrap value of \$1962.

After how many pieces quilted will the machine reach its scrap value?

1 mark

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**END OF QUESTION 2**