20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Under simple interest, interest is calculated only on the original principal and never on accumulated interest.

TRUE

Simple interest applies the rate to the starting principal for the full tenure, with no compounding of accrued interest.

Question 2

For the same principal, rate and period, compound interest will always be less than simple interest.

FALSE

Compound interest is always at least equal to simple interest and exceeds it for more than one period, because interest is reinvested.

Question 3

In continuous compounding, A = P x e^(rt), the rate r is entered in decimal form with t in years.

TRUE

An 8 percent rate is entered as 0.08, and e is approximately 2.71828, marking the theoretical upper limit of compounding.

Question 4

The Rule of 72 gives the exact number of years for an investment to double.

FALSE

It is an approximation, a rule of thumb for annual compounding, not an exact formula.

Question 5

Under the RBI EBLR regime, banks may reset floating-rate loan interest only once every twelve months.

FALSE

The reset must occur at least once every 3 months, not annually.

Question 6

EMIs are ordinary annuities while rent paid in advance and insurance premiums are annuities due.

TRUE

Ordinary annuity cash flows fall at the end of each period, whereas annuity-due cash flows fall at the beginning.

Question 7

The present value of an annuity due is greater than the present value of the equivalent ordinary annuity.

TRUE

Each cash flow is discounted one period less, so PV(due) equals PV(ordinary) multiplied by (1 + i).

Question 8

In a front-end interest arrangement, the borrower receives the full nominal amount and pays interest on daily balances.

FALSE

That describes back-end interest; front-end interest is deducted upfront and the borrower receives only the net amount.

Question 9

Under the EMI method the principal component is largest in the early instalments and falls as the loan ages.

FALSE

The opposite is true: early EMIs are interest-heavy and the principal portion rises as the outstanding balance falls.

Question 10

A sinking fund is typically created to discharge a bullet or balloon repayment at maturity.

TRUE

Fixed periodic deposits accumulate to exactly the target corpus needed when the whole principal falls due at once.

Question 11

Under RBI's Pre-payment Charges Directions, 2025, lenders cannot levy prepayment charges on floating-rate non-business loans to individuals.

TRUE

For loans sanctioned or renewed on or after 1 January 2026, the prohibition applies irrespective of the source of prepayment funds and with no lock-in.

Question 12

Higher compounding frequency within a year produces a higher effective yield for the same nominal rate.

TRUE

Dividing the rate by m and multiplying the exponent by m means quarterly beats annual, monthly beats quarterly, and so on.

Question 13

As per the June 2026 MPC, the Repo Rate is 6.50 percent.

FALSE

The Repo Rate is 5.25 percent per the June 2026 MPC, with MSF and Bank Rate at 5.50 percent and SDF at 5.00 percent.

Question 14

Continuous compounding is used in Black-Scholes option pricing and several treasury and risk valuation models.

TRUE

It is a foundational JAIIB formula applied further in CAIIB Treasury and derivatives pricing.

Question 15

In the equal principal plus periodic interest method, the total instalment stays constant every month.

FALSE

The principal component is constant but interest falls on the reducing balance, so the total instalment falls each period.

Question 16

A fixed-rate loan insulates the borrower from both rises and falls in the benchmark for the whole tenure.

TRUE

The rate is locked at sanction with no benchmark linkage, so a later EBLR move does not flow through to the borrower.

Question 17

Front-end interest results in an effective rate lower than the nominal rate.

FALSE

It results in a higher effective rate, because interest is computed on the gross amount while the borrower receives only the net proceeds.

Question 18

The future value of an annuity due equals the ordinary annuity's future value multiplied by (1 + i).

TRUE

Each start-of-period cash flow earns one extra period of growth, so FV(due) = FV(ordinary) x (1 + i).

Question 19

Bullet or balloon repayment means the entire principal is repaid in one lump at maturity.

TRUE

Interest may be periodic or accumulated, but the full principal falls due at maturity, as in working-capital demand loans and bridge loans.

Question 20

External benchmarking of new floating-rate Medium Enterprise loans applied from 1 October 2019.

FALSE

Medium Enterprise loans were externally benchmarked from 1 April 2020; the 1 October 2019 date applied to personal, retail and Micro & Small Enterprise loans.