Average Annual Growth Rate Example 122

Problem: $1850 is put into an account. After two years the fund has grown to $3095.42. What is the average annual growth rate for this fund, during this two-year period? (Round intermediate results to 4 decimal places.)

Solution: The average annual growth rate is $\sqrt{\frac{3095.42}{1850}} - 1$

$= \sqrt{1.6732} - 1 = 1.2935 - 1 = 0.2935 = 29.35\%$.

Check: $1850 x 1.2935 = $2392.96, and $2392.96 x 1.2935 = $3095.29.

Note: This is the type of problem you usually get regarding average annual growth rate, that is, a problem in which you are given only the beginning value and the ending value (and the number of years). That is, you are not given the growth rates for the individual years.

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