



Interest Rate Components

*Every type of interest rate can be disaggregated as
the sum of 5 components*

- 1 Assuming no risk of default and zero inflation
- 2 Compensates for the reduced purchasing power of money
- 3 Compensates the lender for assuming default risk
- 4 Premium that investors demand when a security is difficult to sell
- 5 Compensating an investor for the long maturity of his investment

+ Profit Margin



Interest Rate