**COMPOUND INTEREST DOUBLING TIME RULE: EXTENSIONS AND EXAMPLES FROM ANTIQUITIES**

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**Abstract**

Compound interest calculations are used in most financial transactions concerning loans and investments. Of special interest, is calculating the time it takes a principal to double at a certain compound interest rate. This article starts by discussing the famous Rule of 70 (or 72) that gives a simple estimate of the doubling time under compound interest. The Rule of 70 is then extended to estimate the time for a principal to grow to a higher fold (triple, quadruple, etc.) under compounding. Finally, this article shows that doubling time (or to higher folds) calculations were carried out in antiquity as evidenced by many excavated ancient cuneiform texts from Mesopotamia (c. 2000 BCE).

**Key words:** cuneiform AO 6770, VAT 8528, m-fold time rules, Mesopotamia, rule of 70

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**About the Author**

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**Abstract**

Compound interest calculations are used in most financial transactions concerning loans and investments. Of special interest, is calculating the time it takes a principal to double at a certain compound interest rate. This article starts by discussing the famous Rule of 70 (or 72) that gives a simple estimate of the doubling time under compound interest. The Rule of 70 is then extended to estimate the time for a principal to grow to a higher fold (triple, quadruple, etc.) under compounding. Finally, this article shows that doubling time (or to higher folds) calculations were carried out in antiquity as evidenced by many excavated ancient cuneiform texts from Mesopotamia (c. 2000 BCE).

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**1. Introduction**

Interest bearing accounts can grow by earning interest according to the simple interest method or to the compound interest method. In the simple interest method, the interest is paid on the initial investment (the principal) only, not on the interest earned over time. In the compound interest method, the interest is paid on the principal and on the interest accrued over time. Thus, compound interest is called “interest on the interest.” While compound interest is used in most banking and financial transactions such as in saving accounts and loan repayments, simple interest is used in some short-term financial transactions.

Although compound interest is currently a driving force in most modern economies, it is by no means a modern invention. Cuneiform text tablets from the Sumerian period (ca. 2600-2350 BCE) and from the Old Babylonian period (ca. 2000-1600 BCE) showed concrete evidence of compound interest calculations for transactions between individuals and between city states. Some of those ancient examples demonstrate calculations of the time (doubling time) it takes a principal to double (or grow to higher folds) under compounded interest.

The doubling time of a principal is still of interest in our modern days. The present-day rule of 70 states that it will take years for a principal to double at an annual compound interest rate of *r* (as a decimal). Thus atannual interest rate, a principal doubles in  years.

In this article, we discuss the exact and approximate doubling time rules for compound interest. Then we derive exact and approximate mathematical extensions for calculating the times for a principal to triple, quadruple, quintuple, etc., under compound interest. Two interesting examples from antiquities are presented to demonstrate the early history of compound interest calculations.

**2. Terminology**

For the benefit of the reader, we give the basic terminology and formulae regarding present-day mathematics of compound interest:

*P* = the initial principal (or present value) that is invested,

*r* = annual interest rate expressed in decimal form. In percent form, 100r% is called the annual percentage rate (APR).

*n* = frequency of compounding periods per year. For example, n = 1, 2, 4, 12, 52, and 365 corresponds to annual, semi-annual, quarterly, monthly, weekly, and daily compounding, respectively. Also n= ½, 1/3, ¼, 1/5, and 1/10 corresponds to compounding every two years (biannual), every three years (triennial), every four years (quadrennial), every five years (quinquennial), and every 10 years (decennial). An ancient history example of compounding once every five years is presented in this paper.

t = time of investment in years,

*F* = future value of the principal *P*, and

*I* = total accrued interest.

The basic compound interest formulae are

 (1)

, (2)

For continuous compounding (i.e., when ), the basic formula becomes

. Thus,

(3)

**3. The m-Fold Exact Time Rule**

The question at hand is “How long does it take a principal to grow m-folds at an annual interest rate of *r* and a compounding frequency of *n* times per year?”

**Solution:** Substitute*F = mP* in formula (1) to obtain

in compounding periods.

In number of years, the m-fold exact time compounding formula is

in years. (4)

For continuous compounding, the m-fold exact time formula can be derived from (3) as:

in years. (5)

Note that the value of m can be equal to 1.5 if one requires the time for a principal to grow by 50%. Of special interest is when m = 2, which leads to the doubling exact time formula

in years (6)

For continuous compounding, the doubling t exact ime formula becomes

in years. (7)

##### **4. The m-Fold Approximate Time Rules**

Instead of using the doubling exact time in formula (6) that requires logarithmic calculations, present-day financiers use a simple rule (the rule of 70) to approximate the required doubling time under compound interest. The rule of 70 states that at an annual interest rate of r (in decimal form), a principal doubles in  years. Thus, at a 7% APR, money doubles in years. Sometimes people prefer using 7*2* instead of 70 because *72* has more divisors than does 70. The 72 double-your-money rule becomes . We will extend the rule of 70 (or 72) to rules that give the approximate time for a principal to grow m-folds (triple, quadruple, etc.).

Suppose that a principal *P* is invested at an annual interest rate of *r* (in decimal)compounded at a frequency of n > 0. It is required to determine the approximate time for the principal to grow m-folds, i.e., becomes *mP*, where

Recall the m-fold exact time formula in (4), .



When m=2, we get the famous approximate double time formula (the Rule of 70) as follows:

, or , which leads to

in years. (9)

**Note 1:** The m-fold approximate time in formulae (8) and (9) are indifferent to the compounding frequency, n.

**Note 2:** The m-fold t approximate and the exact time formulae for continuous compounding are identical: in years.

Table 1 shows extensions of the Rule of 70 to m-fold approximate time rules.

**Table 1. The m-Fold Approximate Compound Interest Time Rules in Years. r is the Annual Interest Rate.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **m** |  | **m-Fold Approximate**  **Time in Years** | **r = 0.02** | **r = 0.05** | **r = 0.10** | **r = 0.20** |
| 1.5 | 0.40547/r | 40/100r rule of 40 | 20 | 8 | 4 | 2 |
| 2 | 0.69314/r | 70/100r rule of 70 | 35 | 14 | 7 | 3.5 |
| 2.5 | 0.91629/r | 92/100r rule of 92 | 46 | 18.4 | 9.2 | 4.6 |
| 3 | 1.09861/r | 110/100r rule of 110 | 55 | 22 | 11 | 5.5 |
| 4 | 1.38629/r | 140/100r rule of 140 | 70 | 28 | 14 | 7 |
| 5 | 1.60944/r | 160/100r rule of 160 | 80 | 32 | 16 | 8 |
| 6 | 1.79176/r | 180/100r rule of 180 | 90 | 36 | 18 | 9 |
| 7 | 1.94591/r | 195/100r rule of 195 | 97.5 | 39 | 19.5 | 9.75 |
| 8 | 2.07944/r | 208/100r rule of 208 | 104 | 41 .6 | 20.8 | 10.4 |
| 9 | 2.19723/r | 220/100r rule of 220 | 110 | 44 | 22 | 11 |
| 10 | 2.30259/r | 230/100r rule of 230 | 115 | 46 | 23 | 11.5 |

# 5. Compound Interest Time Calculations in Antiquities

Mesopotamia (Ancient Iraq in southwest Asia) is the land where the Sumerian, Akkadian, Babylonian, and Assyrian ancient civilizations had flourished and made significant imprints in the human history, especially in mathematics. Excavated cuneiform writings revealed that Mesopotamians handeled problems involving arithmetic and geometric progressions, square and cube roots of integers, quadratic and simultaneous equations, Pythagoras theorem applications, areas and volumes of geometrical figures, and compound interest calculations. References on Mesopotamian mathematics include Baqir (2013, written in Arabic), Neugebauer and Sachs (1945), Nuegebauer (1969),andRobson (2008). Boyer (1991) is a general book on the history of mathematics. Raux (1992) gives a short history of Mesopotamia.

In this article, we discuss two Mesopotamian artifacts that involve compound interest transactions; specifically doubling time calculations. Mesopotamians used exponential tables and their inverses (logarithmic tables) to handle compound interest calculations. Annual interest rates of 10% to 33% on loans were common in Mesopotamia in early periods. Later, interest rates were lower levels up to 20%. Archeologists assign alphanumeric identifications to the cuneiform artifacts they excavate. For example, AO stands for “Antiquite` Orientales” in the Louver in Paris) and VAT stands for “Vorderasiatische Abteilung, Tontafeln” in Staatliche Museen in Berlin.

The two cuneiform tablets that we discuss are: (1) AO 6770 that calculates the time for a principal to double at 20% APR compounded annually. (2) VAT 8528 that calculates the for a principal to grow 64 folds when the frequency of compounding occurs once every five years (quinquennial).

1. **Tablet AO 6770 (c. 2000 BCE, in the Louvre in Paris)**

##### Tablet AO 6770 asks the question: “How long does it take a principal to double at 20% APR compounded annually?”

##### We will discuss the present-day, the Rule of 70, and the Mesopotamian solutions to the above question, in that order.

##### The Present-day Exact Solution: Substitute *r = 20% = 0.20* and *n = 1* in the exact doubling time formula in (6) to obtain

Thus, the present-day exact answer is 3.80 years, which is equivalent to 3 years, 9 months and 18 days.

**The Rule of 70 Approximate Solution:** Substitute r = 0.20 in the rule of 70, formula (9), to get

Thus, the rule of 70 answer is: 3 years and 6 months.

##### The Mesopotamian Solution in Tablet AO 6770: The Mesopotamian solution reduced the question to that of finding the time *t* in the exponential equation . This is equivalent to our present-day formula, in which . As

##### evidenced by excavations, the Mesopotamians had calculated tables of powers of various numbers. By searching through the power tables of, they found that leads to values of t falling between *3* and *4*. Through interpolation between t *= 3* and t *= 4*, their answer was *3* years and months. This Mesopotamian answer is equivalent to 3 years, 9 months, 13 days and one-third of a day.

##### It can be seen that the Mesopotamian answer of “3 years, 9 months, 13 days and one-third of a day” is very close the present-day exact answer of “3 years, 9 months and 18 days.” For further reading on tablet AO 6770, see Curtis (1978) and Muroi (1987).

1. **VAT 8528 (c. 2000 BCE, now in Berlin)**

Tablet VAT 8528 deals with finding the time required for a principal invested at 20% APR to grow 64 folds when compounding occurs once every five years. It asks the question:

**If you lend one mina of silver at an annual interest rate of 12/60 of a mina per year, how long does it take to be repaid as 64 minas?**

In VAT 8528, the Mesopotamian compounded interest by capitalizing interest only when the outstanding principal doubled. InVAT 8528 the annual interest rate is given as . The basic simple interest scenario formula is. Substitute to obtain . Solving, we see that doubling the standing principal occurs every

**Present-day Exact Solution:**

Accounting for the fact that compounding occurs once every five years, the question in VAT 8528 becomes: “How long will it take a principal to grow to 64-folds if compounding occurs every five years (quinquennially) at a 20% APR?”

Substituting m = 64, r = 0.20, n = 1/5 in formula (4), we obtain

.

**The m-Fold Approximate Time Rule:** Substitute m = 64 and r = 0.20 in formula (4), the m-fold approximate time rule to obtain

.

This approximation of 20.8 years is very far off the exact answer of 30 years. The reason for this gross discrepancy is that the approximation requires . In our case, and are quite different. So the approximation is not valid, especially when the compounding frequency is less than once year.

**The Mesopotamian Solution in Tablet VAT 8528:**

The Mesopotamian solution involves reducing the question to that of solving the exponential equation . One can arrive at this equation by substituting in formula (1) to obtain:

.

The Mesopotamian solution used their power tables to look up the power of 2 such that They had 22 = 4, 23 = 8, 24 = 16, 25 = 32, and 26 = 64. Thus , which leads to the solution t = 30 years. Again, the Mesopotamian solution of 30 years coincides with the present-day exact time solution. For further details on VAT 8528 (and a similar tablet VAT 8521), see Neugebauer (1935-1938) and Muroi (1990).

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