

1. Solution: C

Given the same principal invested for the same period of time yields the same accumulated value, the two measures of interest $i^{(2)}$ and δ must be equivalent, which means: $(1 + \frac{i^{(2)}}{2})^2 = e^\delta$ over one interest measurement period (a year in this case).

Thus, $(1 + \frac{.04}{2})^2 = e^\delta$ or $(1 + .02)^2 = e^\delta$ and $\delta = \ln(1.02)^2 = 2\ln(1.02) = .0396$ or 3.96%.