



MATH 122

CLIFTON

1.8: NEW
FUNCTIONS
FROM OLD

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SCALING
RIGID
TRANSFORMATIONS

1.7: EXPO-
NENTIAL
GROWTH AND
DECAY

DOUBLING TIME
AND HALF-LIFE
FINANCIAL
APPLICATIONS
CONTINUOUSLY
COMPOUNDING
INTEREST

MATH 122

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Calculus for Business Administration and Social
Sciences



OUTLINE

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1 1.8: NEW FUNCTIONS FROM OLD

- Function Composition
- Scaling
- Rigid Transformations



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1 1.8: NEW FUNCTIONS FROM OLD

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- Doubling Time and Half-Life
- Financial Applications
- Continuously Compounding Interest



FUNCTION COMPOSITION

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DEFINITION 1

Given a function f and a function g such that the range of f is contained in the domain of g we can define the composition

$$g \circ f(x) = g(f(x)).$$



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Given a function f and a function g such that the range of f is contained in the domain of g we can define the composition

$$g \circ f(x) = g(f(x)).$$

REMARK 1

We require that the range of f is contained in the domain of g so that the composition makes sense.



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Given a function f and a function g such that the range of f is contained in the domain of g we can define the composition

$$g \circ f(x) = g(f(x)).$$

REMARK 1

We require that the range of f is contained in the domain of g so that the composition makes sense. That is, we don't want $f(x)$ to be a point for which g is undefined.



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Let

- $f(x) = x + 1$, and

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Let

- $f(x) = x + 1$, and
- $g(x) = x^2$.



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Let

- $f(x) = x + 1$, and
- $g(x) = x^2$.

Both have domain and range \mathbb{R} , so we can compose in either order.



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$$g \circ f(x) = g(f(x)) = g(x + 1)$$



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$$g \circ f(x) = g(f(x)) = g(x + 1) = (x + 1)^2$$



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$$g \circ f(x) = g(f(x)) = g(x + 1) = (x + 1)^2 = x^2 + 2x + 1.$$



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$$g \circ f(x) = g(f(x)) = g(x + 1) = (x + 1)^2 = x^2 + 2x + 1.$$

and

$$f \circ g(x) = f(g(x))$$



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and

$$f \circ g(x) = f(g(x)) = f(x^2) = x^2 + 1.$$



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Let

• $f(x) = \frac{1}{x}$, and



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- $f(x) = \frac{1}{x}$, and
- $g(x) = x - 1$.



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- $f(x) = \frac{1}{x}$, and
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The domain and range of g are both \mathbb{R} .



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- $f(x) = \frac{1}{x}$, and
- $g(x) = x - 1$.

The domain and range of g are both \mathbb{R} . The domain and range of f are both

$$\{x \in \mathbb{R} \mid x \neq 0\}.$$



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- $f(x) = \frac{1}{x}$, and
- $g(x) = x - 1$.

The domain and range of g are both \mathbb{R} . The domain and range of f are both

$$\{x \in \mathbb{R} \mid x \neq 0\}.$$

If we restrict $g(x)$ to the domain

$$\{x \in \mathbb{R} \mid x \neq 1\}$$

then $g(x) \neq 0$.



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- $f(x) = \frac{1}{x}$, and
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The domain and range of g are both \mathbb{R} . The domain and range of f are both

$$\{x \in \mathbb{R} \mid x \neq 0\}.$$

If we restrict $g(x)$ to the domain

$$\{x \in \mathbb{R} \mid x \neq 1\}$$

then $g(x) \neq 0$. Hence

$$f \circ g(x) = \frac{1}{x-1}.$$



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Let $f(x)$ be a function and let $0 < a$ be a real number.



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Let $f(x)$ be a function and let $0 < a$ be a real number. The graph of $af(x)$ is



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Let $f(x)$ be a function and let $0 < a$ be a real number. The graph of $af(x)$ is

- a *vertical stretching* of the graph of $f(x)$ if $1 < a$



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Let $f(x)$ be a function and let $0 < a$ be a real number. The graph of $af(x)$ is

- a *vertical stretching* of the graph of $f(x)$ if $1 < a$
- a *vertical shrinking* of the graph of $f(x)$ if $a < 1$.



EXAMPLES

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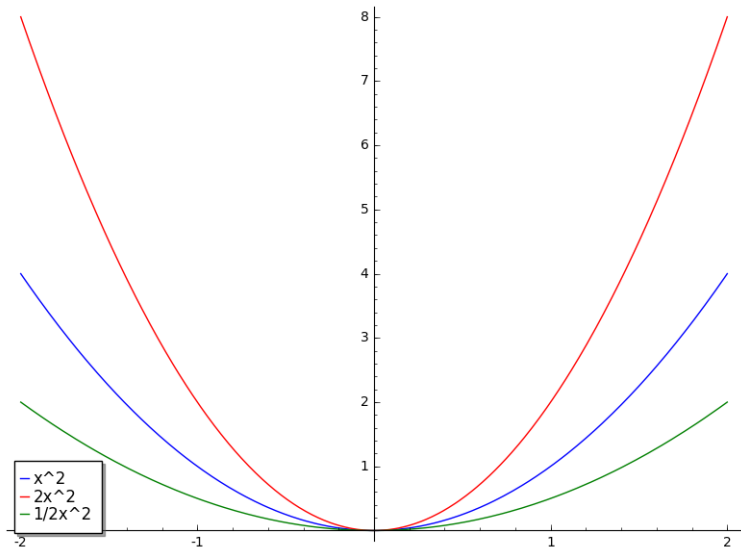
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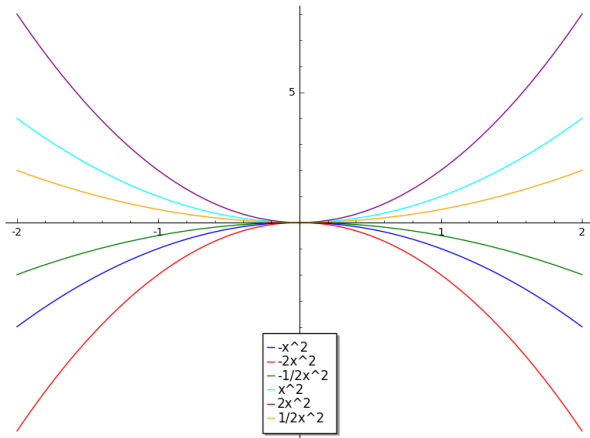
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The graph of $-f(x)$ is a reflection of $f(x)$ across the x -axis.





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Let $f(x)$ be a function.



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Let $f(x)$ be a function. Let $0 < a$ be a real number.



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Let $f(x)$ be a function. Let $0 < a$ be a real number.

- The graph of $f(x) + a$ is the graph of $f(x)$ shifted up a units.



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Let $f(x)$ be a function. Let $0 < a$ be a real number.

- The graph of $f(x) + a$ is the graph of $f(x)$ shifted up a units.
- The graph of $f(x) - a$ is the graph of $f(x)$ shifted down a units.



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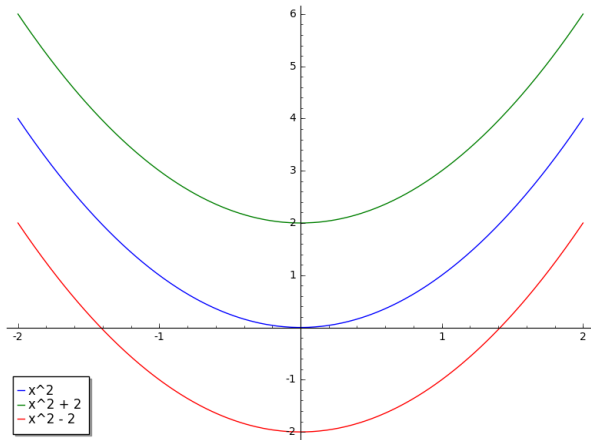
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Let $f(x)$ be a function.



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Let $f(x)$ be a function. Let $0 < a$ be a real number.

- The graph of $f(x - a)$ is a horizontal shift of $f(x)$ by a units to the right.



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Let $f(x)$ be a function. Let $0 < a$ be a real number.

- The graph of $f(x - a)$ is a horizontal shift of $f(x)$ by a units to the right.
- The graph of $f(x + a)$ is a horizontal shift of $f(x)$ by a units to the left.



EXAMPLES

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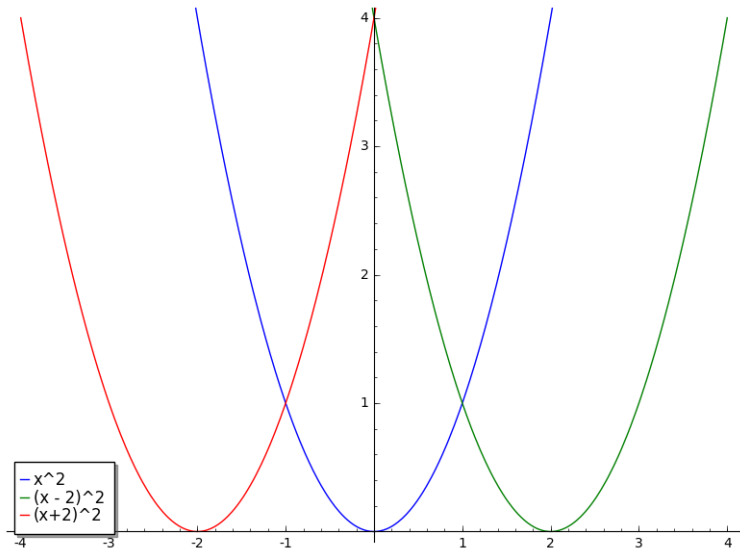
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DEFINITION 2

- The *doubling time* of an exponentially increasing quantity is the time required for the quantity to double.



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DEFINITION 2

- The *doubling time* of an exponentially increasing quantity is the time required for the quantity to double.
- The *half-life* of an exponentially decaying quantity is the time required for the quantity to be reduced by a factor of one half.



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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d .



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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$.



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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$. Then

$$P(t + d) = P_0 a^{t+d}$$



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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$. Then

$$\begin{aligned} P(t + d) &= P_0 a^{t+d} \\ &= P_0 a^t a^d \end{aligned}$$



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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$. Then

$$\begin{aligned} P(t + d) &= P_0 a^{t+d} \\ &= P_0 a^t a^d \\ &= P_0 a^t a^{\log_a(2)} \end{aligned}$$



DOUBLING TIME

MATH 122

CLIFTON

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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$. Then

$$\begin{aligned} P(t + d) &= P_0 a^{t+d} \\ &= P_0 a^t a^d \\ &= P_0 a^t a^{\log_a(2)} \\ &= 2P_0 a^t \end{aligned}$$



DOUBLING TIME

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Every exponentially increasing function, $P(t) = P_0 a^t$, has a fixed doubling time, d . Take $d = \log_a(2)$. Then

$$\begin{aligned} P(t + d) &= P_0 a^{t+d} \\ &= P_0 a^t a^d \\ &= P_0 a^t a^{\log_a(2)} \\ &= 2P_0 a^t \\ &= 2P(t). \end{aligned}$$



HALF-LIFE

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Similarly, every exponentially decreasing function,
 $P(t) = P_0 a^t$, has a fixed half-life, h .



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FINANCIAL
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Similarly, every exponentially decreasing function,
 $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$



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Similarly, every exponentially decreasing function,
 $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$

Then

$$P(t+h) = P_0 a^{t+h}$$



HALF-LIFE

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Similarly, every exponentially decreasing function, $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$

Then

$$\begin{aligned} P(t+h) &= P_0 a^{t+h} \\ &= P_0 a^t a^h \end{aligned}$$



HALF-LIFE

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Similarly, every exponentially decreasing function, $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$

Then

$$\begin{aligned} P(t+h) &= P_0 a^{t+h} \\ &= P_0 a^t a^h \\ &= P_0 a^t a^{-\log_a(2)} \end{aligned}$$



HALF-LIFE

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Similarly, every exponentially decreasing function,
 $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$

Then

$$\begin{aligned} P(t+h) &= P_0 a^{t+h} \\ &= P_0 a^t a^h \\ &= P_0 a^t a^{-\log_a(2)} \\ &= \frac{1}{2} P_0 a^t \end{aligned}$$



HALF-LIFE

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Similarly, every exponentially decreasing function,
 $P(t) = P_0 a^t$, has a fixed half-life, h . Take

$$h = \log_a \left(\frac{1}{2} \right) = -\log_a(2).$$

Then

$$\begin{aligned} P(t+h) &= P_0 a^{t+h} \\ &= P_0 a^t a^h \\ &= P_0 a^t a^{-\log_a(2)} \\ &= \frac{1}{2} P_0 a^t \\ &= \frac{1}{2} P(t). \end{aligned}$$



COMPUTING DOUBLING TIME/HALF-LIFE

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To approximate the value of the doubling time with a calculator:

$$d = \log_a(2) = \frac{\ln(2)}{\ln(a)}$$

and

$$h = -\log_a(2) = -\frac{\ln(2)}{\ln(a)}.$$



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Radiation from an iodine source decays at a continuous hourly rate of $k = -0.004$.



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Radiation from an iodine source decays at a continuous hourly rate of $k = -0.004$. If the radiation level at a spill is about 2.4 millirems/hour:



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Radiation from an iodine source decays at a continuous hourly rate of $k = -0.004$. If the radiation level at a spill is about 2.4 millirems/hour:

(A) What was the radiation level 24 hours later?



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Radiation from an iodine source decays at a continuous hourly rate of $k = -0.004$. If the radiation level at a spill is about 2.4 millirems/hour:

- (A) What was the radiation level 24 hours later?
- (B) How long will it take for the radiation levels to decay to the maximum acceptable radiation level of 0.6 millirems/hour set by the EPA?



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :



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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :

$$0.6 = 2.4e^{-0.004t}$$



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :

$$\begin{aligned} 0.6 &= 2.4e^{-0.004t} \\ \Rightarrow e^{-0.004t} &= \frac{0.6}{2.4} = \frac{1}{4} \end{aligned}$$



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :

$$\begin{aligned} 0.6 &= 2.4e^{-0.004t} \\ \Rightarrow e^{-0.004t} &= \frac{0.6}{2.4} = \frac{1}{4} \\ \Rightarrow -0.004t &= \ln\left(\frac{1}{4}\right) = -\ln(4) \end{aligned}$$



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :

$$\begin{aligned} 0.6 &= 2.4e^{-0.004t} \\ \Rightarrow e^{-0.004t} &= \frac{0.6}{2.4} = \frac{1}{4} \\ \Rightarrow -0.004t &= \ln\left(\frac{1}{4}\right) = -\ln(4) \\ \Rightarrow t &= \frac{1}{0.004} \ln(4) \approx 346.57 \text{ hours.} \end{aligned}$$



EXAMPLE (CONT.)

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(A) The radiation level 24 hours later is

$$R(24) = 2.4e^{-0.004 \cdot 24} \approx 2.18 \text{ millirems/hour.}$$

(B) Solve the equation below for t :

$$\begin{aligned} 0.6 &= 2.4e^{-0.004t} \\ \Rightarrow e^{-0.004t} &= \frac{0.6}{2.4} = \frac{1}{4} \\ \Rightarrow -0.004t &= \ln\left(\frac{1}{4}\right) = -\ln(4) \\ \Rightarrow t &= \frac{1}{0.004} \ln(4) \approx 346.57 \text{ hours.} \end{aligned}$$

Therefore, it will take approximately $346.57/24 = 14.4$ days.



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009.



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population.



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population. We are given $P_0 = 19.5$ and $P(25) = 39$.



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population. We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population. We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$39 = 19.5e^{25k}$$



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population.

We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$\begin{aligned} 39 &= 19.5e^{25k} \\ \Rightarrow \frac{39}{19.5} &= 2 = e^{25k} \end{aligned}$$



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population.

We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$\begin{aligned} 39 &= 19.5e^{25k} \\ \Rightarrow \frac{39}{19.5} &= 2 = e^{25k} \\ \Rightarrow \ln(2) &= \ln(e^{25k}) = 25k \end{aligned}$$



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population.

We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$\begin{aligned} 39 &= 19.5e^{25k} \\ \Rightarrow \frac{39}{19.5} &= 2 = e^{25k} \\ \Rightarrow \ln(2) &= \ln(e^{25k}) = 25k \\ \Rightarrow k &= \frac{\ln(2)}{25} \end{aligned}$$



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population.

We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$\begin{aligned} 39 &= 19.5e^{25k} \\ \Rightarrow \frac{39}{19.5} &= 2 = e^{25k} \\ \Rightarrow \ln(2) &= \ln(e^{25k}) = 25k \\ \Rightarrow k &= \frac{\ln(2)}{25} \approx 0.028. \end{aligned}$$



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The population of Kenya was about 19.5 million in 1984 and 39 million in 2009. Find, assuming exponential growth, a function of t years since 1984 modeling the population. We are given $P_0 = 19.5$ and $P(25) = 39$. If we assume that $P(t) = 19.5e^{kt}$, then

$$\begin{aligned} 39 &= 19.5e^{25k} \\ \Rightarrow \frac{39}{19.5} &= 2 = e^{25k} \\ \Rightarrow \ln(2) &= \ln(e^{25k}) = 25k \\ \Rightarrow k &= \frac{\ln(2)}{25} \approx 0.028. \end{aligned}$$

Therefore

$$P(t) \approx 19.5e^{0.028t}.$$



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere.



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year.



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?

The half life is given by

$$\log_{e^k}(2) = -\frac{\ln(2)}{\ln(e^k)}$$



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?

The half life is given by

$$\begin{aligned}\log_{e^k}(2) &= -\frac{\ln(2)}{\ln(e^k)} \\ &= -\frac{\ln(2)}{k}\end{aligned}$$



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?

The half life is given by

$$\begin{aligned}\log_{e^k}(2) &= -\frac{\ln(2)}{\ln(e^k)} \\ &= -\frac{\ln(2)}{k} \\ &= -\frac{\ln(2)}{-\frac{1}{400}}\end{aligned}$$



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?

The half life is given by

$$\begin{aligned}\log_{e^k}(2) &= -\frac{\ln(2)}{\ln(e^k)} \\ &= -\frac{\ln(2)}{k} \\ &= -\frac{\ln(2)}{-\frac{1}{400}} \\ &= 400 \ln(2)\end{aligned}$$



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The release of chlorofluorocarbons (CFCs) used in air conditioners and household aerosols destroys the ozone layer in the upper atmosphere. The quantity of ozone, $Q(t)$, decays exponentially at a continuous rate of 0.25% per year. What is the half-life of ozone?

The half life is given by

$$\begin{aligned}\log_{e^k}(2) &= -\frac{\ln(2)}{\ln(e^k)} \\ &= -\frac{\ln(2)}{k} \\ &= -\frac{\ln(2)}{-\frac{1}{400}} \\ &= 400 \ln(2) \approx 277 \text{ years.}\end{aligned}$$



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Assume a sum of money P_0 is deposited in an account paying interest at a rate of r yearly, compounded n times per year.



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Assume a sum of money P_0 is deposited in an account paying interest at a rate of r yearly, compounded n times per year. This means that each compounding period, the account earns interest on the balance at a rate of r/n .



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Assume a sum of money P_0 is deposited in an account paying interest at a rate of r yearly, compounded n times per year. This means that each compounding period, the account earns interest on the balance at a rate of r/n . What is the balance of the account after t years?



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Consider the table:

Compounding Period

Account Balance



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Consider the table:

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Account Balance
 $P_0 \left(1 + \frac{r}{n}\right)$



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Consider the table:

Compounding Period

1

2

Account Balance

$$P_0 \left(1 + \frac{r}{n}\right)$$

$$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$$



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Consider the table:

Compounding Period

1

2

3

Account Balance

$$P_0 \left(1 + \frac{r}{n}\right)$$

$$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$$

$$P_0 \left(1 + \frac{r}{n}\right)^2 \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^3$$



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Consider the table:

Compounding Period

1

2

3

\vdots

Account Balance

$$P_0 \left(1 + \frac{r}{n}\right)$$

$$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$$

$$P_0 \left(1 + \frac{r}{n}\right)^2 \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^3$$

\vdots



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Consider the table:

Compounding Period	Account Balance
1	$P_0 \left(1 + \frac{r}{n}\right)$
2	$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$
3	$P_0 \left(1 + \frac{r}{n}\right)^2 \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^3$
\vdots	\vdots
n	$P_0 \left(1 + \frac{r}{n}\right)^n$



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Consider the table:

Compounding Period	Account Balance
1	$P_0 \left(1 + \frac{r}{n}\right)$
2	$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$
3	$P_0 \left(1 + \frac{r}{n}\right)^2 \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^3$
\vdots	\vdots
n	$P_0 \left(1 + \frac{r}{n}\right)^n$

So at the end of the year, the balance will be $P_0 \left(1 + \frac{r}{n}\right)^n$.



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Consider the table:

Compounding Period	Account Balance
1	$P_0 \left(1 + \frac{r}{n}\right)$
2	$P_0 \left(1 + \frac{r}{n}\right) \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^2$
3	$P_0 \left(1 + \frac{r}{n}\right)^2 \left(1 + \frac{r}{n}\right) = P_0 \left(1 + \frac{r}{n}\right)^3$
\vdots	\vdots
n	$P_0 \left(1 + \frac{r}{n}\right)^n$

So at the end of the year, the balance will be $P_0 \left(1 + \frac{r}{n}\right)^n$.
Continuing this way, the account balance after t years will be

$$P_0 \left(1 + \frac{r}{n}\right)^{nt}.$$



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Say you invest P_0 dollars at a rate of r per year,
compounded n times.



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Say you invest P_0 dollars at a rate of r per year, compounded n times. What is the doubling time?



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Say you invest P_0 dollars at a rate of r per year, compounded n times. What is the doubling time?
The function for the account balance is

$$P_0 \left(1 + \frac{r}{n}\right)^{nt} = P_0 \left(\left(1 + \frac{r}{n}\right)^n\right)^t.$$



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Say you invest P_0 dollars at a rate of r per year, compounded n times. What is the doubling time? The function for the account balance is

$$P_0 \left(1 + \frac{r}{n}\right)^{nt} = P_0 \left(\left(1 + \frac{r}{n}\right)^n\right)^t.$$

Therefore the doubling time is

$$d = \log_{\left(1 + \frac{r}{n}\right)^n}(2)$$



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Say you invest P_0 dollars at a rate of r per year, compounded n times. What is the doubling time? The function for the account balance is

$$P_0 \left(1 + \frac{r}{n}\right)^{nt} = P_0 \left(\left(1 + \frac{r}{n}\right)^n\right)^t.$$

Therefore the doubling time is

$$d = \log_{\left(1 + \frac{r}{n}\right)^n}(2) = \frac{\ln(2)}{\ln\left(\left(1 + \frac{r}{n}\right)^n\right)}$$



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Say you invest P_0 dollars at a rate of r per year, compounded n times. What is the doubling time? The function for the account balance is

$$P_0 \left(1 + \frac{r}{n}\right)^{nt} = P_0 \left(\left(1 + \frac{r}{n}\right)^n\right)^t.$$

Therefore the doubling time is

$$d = \log_{\left(1 + \frac{r}{n}\right)^n}(2) = \frac{\ln(2)}{\ln\left(\left(1 + \frac{r}{n}\right)^n\right)} = \frac{\ln(2)}{n \ln\left(1 + \frac{r}{n}\right)}.$$



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Say the interest rate is 2% and interest is compounded yearly.



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Say the interest rate is 2% and interest is compounded yearly. The expected doubling time is

$$d = \frac{\ln(2)}{\ln(1.02)}$$



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Say the interest rate is 2% and interest is compounded yearly. The expected doubling time is

$$d = \frac{\ln(2)}{\ln(1.02)} \approx 35 \text{ years.}$$



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Say the interest rate is 2% and interest is compounded yearly. The expected doubling time is

$$d = \frac{\ln(2)}{\ln(1.02)} \approx 35 \text{ years.}$$

REMARK 2 (“RULE OF 70”)

When $r\%$ is very small,

$$\ln\left(1 + \frac{r}{100}\right) \approx \frac{r}{100}$$

and $\ln(2) \approx .7$, so the doubling rate is approximately



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and $\ln(2) \approx .7$, so the doubling rate is approximately

$$d = \frac{\ln(2)}{\ln\left(1 + \frac{r}{100}\right)}$$



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$$d = \frac{\ln(2)}{\ln\left(1 + \frac{r}{100}\right)} \approx \frac{.7}{r/100}$$



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$$d = \frac{\ln(2)}{\ln(1.02)} \approx 35 \text{ years.}$$

REMARK 2 (“RULE OF 70”)

When $r\%$ is very small,

$$\ln\left(1 + \frac{r}{100}\right) \approx \frac{r}{100}$$

and $\ln(2) \approx .7$, so the doubling rate is approximately

$$d = \frac{\ln(2)}{\ln\left(1 + \frac{r}{100}\right)} \approx \frac{.7}{r/100} = \frac{70}{r}.$$



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The method above is discrete.



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The method above is discrete. If instead, we wish to compound interest at every instant, we get *continuously compounding interest*,

$$P(t) = P_0 e^{rt}.$$



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If \$10,000 is invested at 5% per year, compounded continuously, how long will it take to reach \$15,000?



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If \$10,000 is invested at 5% per year, compounded continuously, how long will it take to reach \$15,000?
We want to solve the equation below for t :

$$P(t) = 10000e^{t/20} = 15000$$



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If \$10,000 is invested at 5% per year, compounded continuously, how long will it take to reach \$15,000?
We want to solve the equation below for t :

$$\begin{aligned} P(t) &= 10000e^{t/20} = 15000 \\ \Rightarrow e^{t/20} &= \frac{15000}{10000} = \frac{3}{2} \end{aligned}$$



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If \$10,000 is invested at 5% per year, compounded continuously, how long will it take to reach \$15,000?
We want to solve the equation below for t :

$$\begin{aligned}P(t) &= 10000e^{t/20} = 15000 \\ \Rightarrow e^{t/20} &= \frac{15000}{10000} = \frac{3}{2} \\ \Rightarrow t/20 &= \ln(e^{t/20}) = \ln\left(\frac{3}{2}\right)\end{aligned}$$



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Say you invest P_0 dollars at a rate of $r\%$ per year compounding continuously.



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Say you invest P_0 dollars at a rate of $r\%$ per year compounding continuously. The account balance is given by the function

$$P_0 e^{\frac{r}{100}t} = P_0 (e^{\frac{r}{100}})^t.$$



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Say you invest P_0 dollars at a rate of $r\%$ per year compounding continuously. The account balance is given by the function

$$P_0 e^{\frac{r}{100}t} = P_0 (e^{\frac{r}{100}})^t.$$

Hence the doubling time is given by

$$\log_{e^{\frac{r}{100}}} (2) = \frac{\ln(2)}{\ln(e^{\frac{r}{100}})}$$



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Say you invest P_0 dollars at a rate of $r\%$ per year compounding continuously. The account balance is given by the function

$$P_0 e^{\frac{r}{100}t} = P_0 (e^{\frac{r}{100}})^t.$$

Hence the doubling time is given by

$$\log_{e^{\frac{r}{100}}} (2) = \frac{\ln(2)}{\ln(e^{\frac{r}{100}})} = \frac{\ln(2)}{\frac{r}{100}}$$



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COMPOSITION
SCALING
RIGID
TRANSFORMATIONS

1.7: EXPO-
NENTIAL
GROWTH AND
DECAY

DOUBLING TIME
AND HALF-LIFE

FINANCIAL
APPLICATIONS

CONTINUOUSLY
COMPOUNDING
INTEREST

Say you invest P_0 dollars at a rate of $r\%$ per year compounding continuously. The account balance is given by the function

$$P_0 e^{\frac{r}{100}t} = P_0 (e^{\frac{r}{100}})^t.$$

Hence the doubling time is given by

$$\log_{e^{\frac{r}{100}}} (2) = \frac{\ln(2)}{\ln(e^{\frac{r}{100}})} = \frac{\ln(2)}{\frac{r}{100}} \approx \frac{70}{r}.$$