12. The **effective annual return** (EAR) for an investment that pays 10 percent interest compounded *quarterly* is
   a. 10.00%
   b. 11.04%
   c. 10.38%
   d. This question cannot be answered without knowing the dollar amount of the investment.
   e. None of the above is correct.

**Solution:**

\[
\text{EAR} = \left(1 + \frac{0.10}{4}\right)^4 - 1 = (1.025)^4 - 1 = 0.1038 = 10.38\%
\]

*RETURN TO THE SAMPLE QUESTIONS*