

Money in the Bank: Your Best Interest 2

SUBMITTED BY: Lee Jackson

SUBJECT(S): Management, Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

This lesson introduces students to the concept of interest in personal finance.

≡ NBEA STANDARD(S):

- Personal Finance, I. Personal Decision Making
- Management, X. Financial Decision Making

≡ RELATED ARTICLES:

- [“Why It Pays to Save: Knowing the Time Value of Money”](#)
- [“Where Money Comes From: How Collecting Coins Helps Trim the National Debt”](#)
- [“A Bank Account Is Your First Step to Financial Freedom”](#)

Common Core Standard(s):

Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.

Objectives/Purposes:

Following this lesson,

- Students will calculate simple interest.
- Students will identify compound and simple interest.

Other Resources/Materials: Whiteboard, markers and chart paper.

Key terms:

- **Interest:** The fee charged by a lender to a borrower for the use of borrowed money.
- **Simple interest:** An amount earned on an account holder's principal, according to a specified rate. This does not include any compounding interest.
- **Compound interest:** Interest calculated on both the principal and the accrued interest.

Tying It All Together:

Demonstrate:

Depositors at a bank are paid interest for allowing the bank to lend their money. So, what is interest?

Explain to students that interest is a payment made for borrowing money. Banks and credit unions will pay them (the depositor) a sum for allowing the use of their money. Alternatively, borrowers will pay interest on almost any type of loan or credit card charge.

Calculate **simple interest** by multiplying your balance by the interest rate owed annually.

Simple interest = balance x interest rate

So, for a \$560.00 television purchased on a credit card bearing an 18% annual interest rate, what is the interest on the television?

$560 \times .18 = \$110.80$ in interest; total cost = $560 + 110.80 = \$670.80$

Compound Interest is when you multiply the balance or principal by the interest rate more than one time a year. Compound interest can be figured out daily, weekly, monthly, quarterly or semi-annually.

Interest is calculated on a percentage of the overall balance. For instance, if you are using simple interest and you owe 9% on a loan, for every \$100 borrowed, you will owe \$9 in interest.

Calculating Simple Interest Rates

Directions: Calculate the simple interest rates for the balances below. Show your calculations.

Dollar Amount	Percentage Rate	Amount of Interest
\$6,000	7.25%	
\$596.62	8%	
\$382.24	5%	
\$12,089	4%	
\$1,908.28	9%	
\$1,908.28	6%	
\$13.99	18%	

Follow- up questions:

1. What can calculating interest tell you about: a) a loan? b) a savings account balance?
2. When is a higher interest rate beneficial?
3. When might a higher interest rate be problematic?