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.

\[
\text{Simple interest} = \text{balance} \times \text{interest rate}
\]

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

\[
560 \times .18 = 110.80 \text{ in interest}; \text{ total cost} = 560 + 110.80 = 670.80
\]

**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.

<table>
<thead>
<tr>
<th>Dollar Amount</th>
<th>Percentage Rate</th>
<th>Amount of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,000</td>
<td>7.25%</td>
<td></td>
</tr>
<tr>
<td>$596.62</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>$382.24</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>$12,089</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>$1,908.28</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>$1,908.28</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>$13.99</td>
<td>18%</td>
<td></td>
</tr>
</tbody>
</table>

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?