



ACTIVITY A

Compound Interest

NOTES

Directions: Write down the following definitions.

Principal:

The amount of money upon which interest is paid.

Interest Rate:

In savings, an interest rate is the price a financial institution pays for using a saver's money and is normally expressed as an annual percentage of the amount saved.

Simple Interest:

Simple interest is earned on the principal amount only.

Compound Interest:

Compound interest is earned on the principal amount plus the interest already earned.

Source: Council for Economic Education

EXAMPLE

	Simple Interest	Compound Interest
Initial deposit	\$100	\$100.00
after 1 year	\$105	\$105.00
after 2 years	\$110	\$110.25
after 3 years	\$115	\$115.76
after 4 years	\$120	\$121.55
after 5 years	\$125	\$127.63

The table shows the growth of a \$100 deposit over 5 years. For Simple Interest, the interest added each year is constant at \$5.00. For Compound Interest, the interest added each year increases as the total amount grows.

same amount of interest every year

increasing amount of interest every year