



Financial Literacy Education Student Handouts



Lesson 4: The Power of Interest

Warm-Up

What do you know about interest? Where have you heard the term before?

Learning Targets

I can:

- Explain what interest is.
- Compare how simple and compound interests affect savings and loans over time.
- Use interest information to make informed saving and borrowing decisions.

Glossary

Compound interest: Interest earned on both the original principal and on any interest that has already been added, causing the total to grow faster over time.

Compounding period: How often interest is added to a savings account, investment, or loan, such as monthly, quarterly, or yearly.

Interest: Extra money you either earn or pay when dealing with financial institutions.

Interest rate: The extra money earned or paid for the use of money over time expressed as a percentage.

Principal: A sum of money you borrow or set aside to save.

Simple interest: The amount of interest calculated only on the original principal, not on any interest earned or added over time.

Note Catcher

Main Ideas/Key Information

What are we discussing?

Notes

What did I learn?

Summary/Application

Why does it matter to me?

Interest Scenarios

Name:

Directions:

1. Work with your group to complete each scenario using the online interest calculator provided by your teacher or instructor.
2. Record your results in the tables below.
3. Answer the discussion questions for each scenario.
4. Be prepared to share your findings.

Scenario 1

Kai deposits \$1,000 from a summer job into a savings account earning 4 percent interest for 5 years. Use the online calculator to compare the results of simple interest and compound interest (compounded annually).

Interest Type	Interest Earned	Final Balance
Simple interest		
Compound interest		

1. Which option earned more interest?

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2. Why did one amount grow faster than the other?

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Scenario 2

Jimena borrows \$2,000 to purchase a used motorcycle and pays 7 percent interest for 5 years. Use the online calculator to compare the results of simple interest and compound interest (compounded annually).

Interest Type	Interest Paid	Total Repayment
Simple interest		
Compound interest		

1.

Which loan cost more?
2.

Why is it important to understand how interest is calculated before borrowing money?

Scenario 3

Maya deposits \$500 into a savings account earning 4 percent compound interest compounded annually. Calculate the results after each time period.

Years Saved	Interest Earned	Final Balance
2 years		
5 years		
10 years		

1. What happened as the amount of time increased?

2. What does this suggest about starting to save early?

3. How did compound interest help Maya’s savings grow over time?

Scenario 4

Hector carries a \$1,000 credit card balance that accrues 18 percent compound interest, compounded monthly. Calculate the results after each time period.

Time Owed	Interest Paid	Total Balance Owed
1 month		
3 months		
6 months		
1 year		

1. What happened to the balance as more time passed?

2. How did compound interest affect the amount Hector owed?

3. Why is it important to pay off credit card balances as quickly as possible?

Exit Ticket

One thing I learned about interest is:

Compound interest can help me when I:

Before borrowing money, I should consider:
