







Financial Literacy
Simple and Compound Interest

$I = Prt$

Interest = I

Principal = P

Rate = r

Time = t

Financial Literacy
Simple and Compound Interest

$I = Prt$

You borrow \$50 and have to pay interest of 15%. You repay the loan after 2 years. How much interest do you owe?

You try it!

Financial Literacy
Simple and Compound Interest

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You borrow \$50 and have to pay interest of 15%. You repay the loan after 2 years. How much interest do you owe?

$I = \$50 * .15 * 2$

$= \$15.00$

You try it!

Financial Literacy
Simple and Compound Interest

$I = Prt$

Balance = B

$\$50 + \$15 = \$65$

$B = P(1 + rt)$

$B = 50(1 + .15*2) = \$65$

Financial Literacy
Simple and Compound Interest

$I = Prt$

$B = P(1+rt)$

You try it!

Your Grandmother starts a college savings fund for you by depositing \$400 into a savings account paying 4% annual interest. After 5 years, what is your balance in the account?

Financial Literacy
Simple and Compound Interest

$I = Prt$

$B = P(1+rt)$

You try it!

Your Grandmother starts a college savings fund for you by depositing \$400 into a savings account paying 4% annual interest. After 5 years, what is your balance in the account?

$B = 400(1 + .04 * 5)$
 $= \$480$

Financial Literacy
Simple and Compound Interest

Simple Interest
Interest is earned only
on the Principal

Compound Interest
Interest is earned on
the Principal and the
previously earned
Interest

$I = Prt$
 $B = P(1+rt)$

Financial Literacy
Simple and Compound Interest

You just have to have this
fabulous fur coat that costs
\$500. You pay for the coat with a store
charge account that charges 18% interest,
compounded annually. You make no
monthly payments, but after 3 years you
have saved enough to pay off the loan.
How much do you owe?

$I = Prt$
 $B = P(1+rt)$

Financial Literacy
Simple and Compound Interest

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fabulous fur coat that costs
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How much do you owe?

Year 1: $B = \$500(1+.18*1) = \590
Year 2: $B = \$590(1+.18*1) = \696.20
Year 3: $B = \$696.20(1+.18*1) = \812.52

$I = Prt$
 $B = P(1+rt)$

Financial Literacy
Simple and Compound Interest

You've run up some credit card bills, and owe the bank \$700. The bank is charging 18% interest, compounded annually. How much will you owe them in 2 years if you make no payments before then?

$I = Prt$
 $B = P(1+rt)$

You try it!

Financial Literacy
Simple and Compound Interest

You've run up some credit card bills, and owe the bank \$700. The bank is charging 18% interest, compounded annually. How much will you owe them in 2 years if you make no payments before then?

$I = Prt$
 $B = P(1+rt)$

You try it!

Year 1: $B = 700(1 + .18*1) = \$826$
Year 2: $B = 826(1 + .18*1) = \$974.68$

Financial Literacy
Simple and Compound Interest

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