M9

Banking

8.6

1. **Investing Money = earning interest**

Interest = amount of $ earned from depositing money into a saving account or investing it in a portfolio, bonds, certified deposits, …

Simple Interest = interest is calculated from the amount invested at the very beginning, this amount is called the principle.

$$\boxed{I = Prt}$$

I = interest [$]
P = principle = opening balance [$]
r = interest rate [decimal]
t = time [years]

<u>Remember to divide the interest rate % by 100 to turn it into a decimal.</u>

Example 1: Calculate the interest and the final balance on a saving account that gives 4.5% annual interest rate given that the opening balance on the account is $ 2000.00 and is deposited for 6 years.

Example 2: Find the final balance on a saving account that offers 3.8% interest rate.

A) $ 5000.00 is deposited for 4 years.

B) $ 12 000.00 is deposited for 6 months.

C) $ 2000.00 is deposited for 8 months.

2. **Borrowing Money = paying interest. Interest is the cost of borrowing.**

Payday Loans = short-term loans with a very high interest rate

Example:

Amount borrowed: $500.00
Borrowing fee: $32.00 per $100.00 borrowed
Length of borrowing period: 3 weeks

A) Determine the interest charged:

B) Determine the annual interest rate:

C) Find the total to be paid back at the end of the borrowing period:

<u>Borrowing from a bank:</u>

Amount borrowed: $500.00
Interest rate: 8.2% (this is an annual rate)
Length of borrowing period: 3 weeks

A) Determine the interest charged:

B) Determine the annual interest rate:

C) Find the total to be paid back at the end of the borrowing period: