

INTEREST RATES

Some formula to remember...

Simple Interest

Interest earned = _____ × _____ × _____

Compound Interest

Interest earned = _____

where

1. If you put \$100 in a savings account that paid 5% simple interest each year, how much interest would you earn in 5 years?

2. If you put \$100 in a savings account that paid 5% compounded yearly, how much interest would you earn in 5 years?

TIME VALUE OF MONEY

Given an interest rate of (a) 7% and (b) 8%, which would you rather have?

(i) \$6,000 now; or (ii) \$10,000 in 7 years' time

Using the rule of 72,

(a) How long would it take to double your money in an account that paid 6% compound interest per year?

(b) What interest rate would double your money in 5 years?