THE MONEY GAME®

Simple Interest

When you invest your money (put it in the bank in a checking or savings account, CD, etc.) you get paid INTEREST (like a rental fee) by the bank because they are using your money to loan out to other people (and they charge these other people A LOT more than they are paying you). The money you save or invest is called the PRINCIPAL. Interest is figured as a percentage (%) per year. In other words, if the interest rate is 10%, it means 10% per year (or per annum).

There are 2 types of interest: simple and compound.

Simple Interest = Principal X Interest Rate (%) X Time

EXAMPLE: you put $100 into your savings account which pays you 7% interest and you leave it in the account for 5 years. To calculate what the interest is (see chart below):

$100 X 7 (%) X 5 (years) = $35.00 or

100 X .07 X 5 = 35

Simple Interest			
The interest rate is only applied to the original principal amount when computing the amount of interest.			
YEAR	PRINCIPAL	INTEREST	ENDING BALANCE
1	$100.00	$7.00	$107.00
2	$100.00	$7.00	$114.00
3	$100.00	$7.00	$121.00
4	$100.00	$7.00	$128.00
5	$100.00	$7.00	$135.00
TOTAL INTEREST			$35.00

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