Name: ___________________________ Date: ____________________

Interest

The amount of interest you pay is based on three elements:

1.

2.

3.

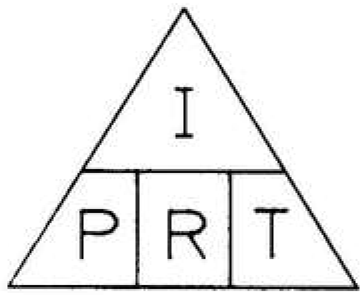
When it is time to pay back the money,

This is called simple interest and it is typically used for very short-term borrowing or investments. The formula is as follows:

Example If you borrow $1000 for **five** years at 10% simple interest is

The total amount due at the end of five years:

When you borrow money, you _________________ interest but when you invest money, you ___________________ interest. An investment is really a case where you lend your money to someone else and they pay you interest such as a bank does. The same equations apply when calculating simple interest that is earned except now principle is the amount invested and simple interest is the amount earned.



Example How much simple interest does a $10 000 investment earn at 5.6% over 18 years? 18 months?

Assignment Finish This Handout Quiz: Next Day!

Example Susan borrows $8650 to buy a used car and is charged 4.5% **simple interest**. If the term of her borrowing is 5 years, how much interest does she pay in total?

Example Henry invests $5000 in a mutual fund with an **annual simple interest** of 7.5%. How long will it take him to double his money?

Assignment

1. If Sheila paid $797.50 in **simple interest** on a 5 year loan of $5 800. What was the **simple interest** rate?

2. Dorothy loaned John $5000 at a **simple interest** rate of 6%. He repaid her $5750 to cover the principal and interest. How long did he borrow the money?

3. How much money was invested at 6% annual simple interest for 3 years to earn $3870?