

by Rocky Mountain Credit Union

LESSON 17: Building Wealth and Understanding Insurance



Money Mastermind Lesson 17, Worksheet 2:

What's My Interest?

If you could earn \$100 or \$10 for doing the same job, which would you take? Chances are, you'd take the \$100. While that seems like an easy choice, understanding how you can earn \$100 versus \$10 when investing money means mastering interest and rate of return. Learn how different rates, interest types, and investment strategies can impact and maximize your earnings by completing the table and questions below.

How to Calculate Simple Interest:

Principal x Interest Rate x Time

Simple Interest/Rate of Return Example:

Imagine you have \$100 and plan to put it in the bank for 6 years with a 6% interest rate, calculated as .06%. Here's what the calculation would look like:

\$100 x .06 x 6 = \$36. The amount will grow by \$36/year using simple interest.

Year 1: \$100 + \$36 = \$136

Year 2: \$172

Year 3: \$208

Year 4: \$244

Year 5: \$280

How to Calculate Compound Interest:

(Principal + Earned Interest) x Interest Rate x Time

Compound Interest/Rate of Return Example:

Imagine the same scenario (\$100, interest rate calculated as .06% for 6 years), but this time interest will be compounded annually. Here's how your money grows:

Year 1: \$100 x .06 x 6 = \$36 (\$100 + \$36) = \$136

Year 2: \$136 x .06 x 6 = \$48.96 (\$136 + \$48.96) = \$184.96

Year 3: \$184.96 x .06 x 6 = \$66.58 (\$184.96 + \$66.58) = \$251.54

Year 4: \$251.54 x .06 x 6 = \$90.55 (\$251.54 + \$90.55) = \$342.09

Year 5: \$342.09 x .06 x 6 = \$123.15 (\$342.09 + \$123.15) = \$465.24

In just a few years, you've nearly tripled your money.

Strategy	Principal	Interest Rate	Time	Interest or Return Type	Interest or Return Earned	Total Value
Stock	\$10,000	3 %	10 years	Compound		
Mutual Fund (portfolio of stocks & bonds)	\$1,000	7 %	20 years	Compound		
Bond	\$100	5 %	30 years	Simple		
Stock	\$700	10 %	1 year	Compound		
Bond	\$10,000	3 %	10 years	Simple		



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Investment Challenge

1. John receives \$1,000 as a graduation gift from his grandparents. Rather than spend it, he decides to invest it in a two-year bond that earns 3% simple interest. John doesn't need access to the money right away because he wants to save it for when he's ready to buy a home in about 10 years. Is the bond a wise investment for John? Why or why not? What other investment options does John have?

2. If you had the choice between investing \$1,000 in a mutual fund that earns 7.5% compound interest or a bond that earns simple interest at 7.5%, which would you choose and why?