

Interesting Interest Rates



Financial institutions encourage people to save by offering interest on savings. They loan these savings to businesses and consumers. Banks compete with one another to attract savers and borrowers. The goal of the bank, like any business, is to make a profit.

Directions: Research the interest rates offered by banks and credit unions in your community. Also, search the web (e.g. www.bankrate.com) to find the interest rates offered by other financial institutions. Compare and contrast your findings.

	Bank 1	Bank 2	Bank 3
<u>Savings Rates:</u>			
Passbook Savings	_____	_____	_____
Checking Account	_____	_____	_____
Certificate of Deposit			
6 month	_____	_____	_____
1 year	_____	_____	_____
2 year	_____	_____	_____
Other	_____	_____	_____
<u>Loan Rates:</u>			
Auto loans			
New	_____	_____	_____
Used	_____	_____	_____
Unsecured loan	_____	_____	_____
Home (mortgage)	_____	_____	_____
Home equity loan	_____	_____	_____
Other	_____	_____	_____

- Are the rates the same at different banks? Why or why not? _____

- Why are the savings rates generally lower than loan rates? _____

- Why are used car rates higher than new car rates? _____

"Interest"ing Math Problems



Interest is what savers earn from banks on their savings accounts and what borrowers pay to banks to borrow money. If a person earns 4 percent (%) a year on a savings account, this means that \$100 will grow to \$104. If a person borrows \$100 for one year at 6%, then he or she owes \$106 to repay the loan. Banks earn a profit by lending at interest rates higher than they pay on savings accounts.

1. Sarah put \$200 into a savings account that paid 5% interest per year. How much money would she have at the end of the year? _____
2. Alice and Sherika each put \$100 into savings accounts. Alice earned 2% on her account, but Sherika earned 3%. At the end of the year how much did they both have all together in their savings accounts? _____
3. In 2. above, how much more did Sherika have than Alice? _____
4. Interest and Fractions: When using "percents," we say that 100% = 1 whole of something; 50% = ?, etc. In the blanks below, write the fraction that equals the percentage. Write the fraction in simplest form. (i.e. 6/10 = 3/5)
 - a. 5% = _____
 - b. 35% = _____
 - c. 75% = _____
 - d. 80% = _____
 - e. 95% = _____
 - f. 125% = _____
5. Jarod's Dad had three loans from the bank! He borrowed \$600 at 8% interest. He borrowed \$1,000 at 6% interest. And he had a \$400 loan at 5% interest. At the end of the year how much interest did he have to pay the bank for all three loans?

6. When you loan your money to a company, the company sometimes gives you a bond, a security that pays you interest each year. (A bond is basically an I.O.U.) How much money each year would you earn from a \$1000 McDonald's bond that pays 3% interest?
_____ What if it paid 5% interest? _____
7. Bonds are riskier than a savings account because the company could go bankrupt and you could lose the interest as well as the entire \$1,000! Suppose you had \$1,000 to invest. Would you put it in a savings account that earns 3% interest, or buy a McDonald's bond that pays 7%. Explain your reasoning!

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