

# CASH COURSE WORKSHEET

## Simple vs. Compound Interest Quiz



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### 1. Match the definition in Column A with the term in Column B.

Column A

- \_\_\_\_\_ Calculated on the original amount borrowed plus interest
- \_\_\_\_\_ Calculated on the original amount borrowed
- \_\_\_\_\_ The yearly rate charged for borrowing
- \_\_\_\_\_ The original amount invested or borrowed
- \_\_\_\_\_ A percentage charged by lenders for borrowing money

Column B

- a. APR
- b. Compound Interest
- c. Interest
- d. Principal
- e. Simple Interest

### 2. Which type of interest is best for you when you invest?

- a. Low simple interest rates
- b. High simple interest rates
- c. Low compound interest rates
- d. High compound interest rates

### 3. Which type of interest is best for you when you borrow?

- a. Low simple interest rates
- b. High simple interest rates
- c. Low compound interest rates
- d. High compound interest rates

### 4. What is the Rule of 72 as applied to compound interest rates?

- a. A rule that tells you how long to invest
- b. A rule that tells you how much you owe
- c. A rule that tells you how long until you're out of debt
- d. A rule that tells you how long until your money doubles

### 5. What is a TRUE statement about interest after a payment due date?

- a. It decreases daily.
- b. It compounds daily.
- c. It does not change.
- d. It only changes if your lender approves.

**Application:** Calculate the annual simple interest on your investment of \$1000 below.

6% Interest Rate:  $\$1000 \times .06 =$  \_\_\_\_\_

8% Interest Rate:  $\$1000 \times .08 =$  \_\_\_\_\_

10% Interest Rate:  $\$1000 \times .10 =$  \_\_\_\_\_

Which percentage rate would earn you the most money? Why would it be best if you earned compound interest rather than simple interest on your investment?

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## Simple vs. Compound Interest Quiz

## Answer Key

### 1. Match the definition in Column A with the term in Column B.

Column A

- b. Compound Interest** Calculated on the original amount borrowed plus interest
- e. Simple Interest** Calculated on the original amount borrowed
- a. APR** The yearly rate charged for borrowing
- d. Principal** The original amount invested or borrowed
- c. Interest** A percentage charged by lenders for borrowing money

Column B

- a. APR
- b. Compound Interest
- c. Interest
- d. Principal
- e. Simple Interest

### 2. Which type of interest is best for you when you invest?

**d. High compound interest rates**

### 3. Which type of interest is best for you when you borrow?

**a. Low simple interest rates**

### 4. What is the Rule of 72 as applied to compound interest rates?

**d. A rule that tells you how long until your money doubles**

### 5. What is a TRUE statement about interest after a payment due date?

**b. It compounds daily.**

**Application:** Calculate the annual simple interest on your investment of \$1000 below.

6% Interest Rate:  $\$1000 \times .06 =$  **\$60**

8% Interest Rate:  $\$1000 \times .08 =$  **\$80**

10% Interest Rate:  $\$1000 \times .10 =$  **\$100**

Which percentage rate would earn you the most money? **10%**

Why would it be best if you earned compound interest rather than simple interest on your investment? **Because compound interest is added back to the principal and you earn interest on your interest.**