Name ______________________________ Date ____________ Class __________

Chapter 30 Savings Accounts

Section 30.1 The Basics of Savings Accounts

Reading Activity—Apply Knowledge

Directions Read the excerpt from the textbook, then follow the steps.

> Simple interest is interest earned only on money deposited into a savings account, called the principal. When principal and interest are left in an account, it earns compound interest. Compound interest is interest earned on both the principal and any interest earned on the principal. Compounding may take place every year, every quarter, every month, or even every day. For example, suppose you had $50,000 in a savings account at 6 percent annual interest. After one year, you would earn $3,000 in interest. With compound interest, the $3,000 would be added to the $50,000 and would start earning interest on $53,000. After 15 years you would earn almost $70,000 in interest.

Step 1. Look at the examples shown below. It shows what would happen if you put $1,000 in a savings account and left it there for five years. The annual interest rate used in this example is 9.5 percent.

SIMPLE INTEREST EXAMPLE			
	Principal	**Interest**	**Balance**
Year 1	1,000.00	95.00	1,095.00
Year 2	1,000.00	95.00	1,190.00
Year 3	1,000.00	95.00	1,285.00
Year 4	1,000.00	95.00	1,380.00
Year 5	1,000.00	95.00	1,475.00
Total Interest		**475.00**	

COMPOUND INTEREST EXAMPLE			
	Principal	**Interest**	**Balance**
Year 1	1,000.00	95.00	1,095.00
Year 2	1,095.00	104.03	1,199.03
Year 3	1,199.03	113.91	1,312.93
Year 4	1,312.93	124.73	1,437.66
Year 5	1,437.66	136.58	1,574.24
Total Interest		**574.24**	

Step 2. Rewrite the excerpt from the textbook using information from the examples above. Add one or two sentences at the end of the paragraph comparing the final balances of the simple interest and compound interest examples.

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