COMPOUND INTEREST AND SAVING · PART 8 OF 8 · AGES 13+

Compound Interest Quiz

Ten questions on the whole series. Every rate is an example. Answer them all, then turn the page round to check.

1 **What is compound interest?**

- A Interest on the original amount only
- B Interest on the original amount and earlier interest
- C A fee for opening an account
- D Interest that is paid only once

2 **1,000 is saved at an example 10% a year, added once a year. How much is there after 2 years?**

- A 1,020
- B 1,100
- C 1,200
- D 1,210

3 **What is the simple interest on 500 at an example 4% a year for 3 years?**

- A 20
- B 60
- C 62.43
- D 560

4 **Interest at an example 6% a year is added monthly. What is the interest rate for each month?**

- A 6%
- B 0.6%
- C 0.5%
- D 72%

5 **Using the Rule of 72, roughly how long does money take to double at an example 6% a year?**

- A 6 years
- B 12 years
- C 18 years
- D 72 years

6 **Which rate is designed for comparing savings accounts fairly?**

- A APR
- B AER (called APY in the US)
- C The inflation rate
- D The daily periodic rate

7 **Savings earn an example 2% a year while prices rise by 3% a year. What happens to what the savings can buy?**

- A It rises by 5%
- B It rises by 2%
- C It stays the same
- D It falls by about 1%

8 **Which graph shape shows a balance growing with compound interest over many years?**

- A A straight line
- B A curve that gets steeper
- C A flat line
- D A curve that levels off

9 **Write 1,000 × 1.05 × 1.05 × 1.05 using a power, then work it out to 2 decimal places.**

10 **Why can an unpaid credit card balance grow by more than its APR in a year?**

ANSWERS

1. B: Interest on the original amount and on earlier interest
2. D: $1{,}000 \times 1.1^2$ = 1,210
3. B: 60 (500 × 0.04 × 3). 62.43 would be compound interest
4. C: 0.5% (6 ÷ 12)
5. B: About 12 years (72 ÷ 6). The exact answer is 11.90 years
6. B: AER, or APY in the US: the yearly rate after compounding
7. D: It falls by about 1% ($1.02 \div 1.03 - 1 \approx -0.97\%$)
8. B: A curve that gets steeper (exponential growth)
9. $1{,}000 \times 1.05^3 = 1{,}157.63$
10. Interest is often added daily and then charged interest too. At an example 20% APR, an unpaid balance grows about 22.1% in a year.

SERIES COMPLETE

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