

# Interest

The Australian government's Moneysmart website defines interest as payment for the use of money over time. You earn interest by lending your money, such as leaving it in a bank account. If you borrow money, interest is the amount you pay to borrow the money. The rate of interest can be fixed (interest is paid at a fixed rate over the term of a loan or investment) or variable interest rate (consumers receive interest on an investment or pay interest on a loan at a rate that may go up or down during the term). Interest is usually calculated as a percentage of the amount lent or borrowed. For example, on a \$10,000 car loan that has an interest rate of 10%, you would pay \$1000 interest in the first year.

Person 1 has \$5,000 in savings. They decide to put in an account offering 2.3% fixed interest. The interest is paid monthly. If they do not withdraw or add any more savings, how much money will be in the account after 12 months? \_\_\_\_\_

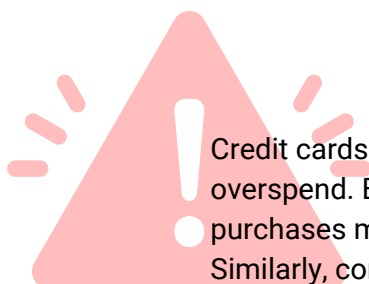
Person 2 also has \$5,000 in savings. They decide to put in an account offering 2.5% variable interest. The interest is paid monthly, however after 4 months the rates drops to 2.15%. If they do not withdraw or add any more savings, how much money will be in the account after 12 months? \_\_\_\_\_

Consumers should carefully read the fees and interest charged on loans and credit cards. Credit card 1 has 0% interest for 12 months. If there is a debt on the card after 12 months, interest is charged at 24%. If a person with credit card 1 has a debt of \$500 after 12 months, how much interest will they be charged? \_\_\_\_\_

Credit card 2 charges 13% interest at the end of each month. There is also a \$58 yearly fee to use this credit card. If a person with this credit card has the following debts at the end of each month, how much fees will they pay in a year? \_\_\_\_\_

Month	End of Month Debt
January	\$15
February	\$0
March	\$0
April	\$65
May	\$5
June	\$0

Month	End of Month Debt
July	\$0
August	\$0
September	\$0
October	\$0
November	\$26
December	\$150



Credit cards can be convenient however they make it easy to overspend. Buying items with a credit card can make your purchases more expensive when interest is charged. Similarly, consumers should closely analyse the fees and interest charged on loans for purchases such as a car.