Module 4 – Simple vs. Compound Interest

CALCULATING INTEREST

BUILDING SOUND FINANCIAL MANAGEMENT SKILLS

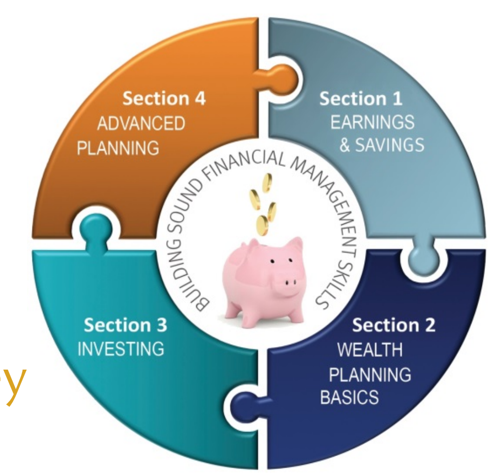
	SIMPLE INTEREST	COMPOUND INTEREST
Payment Frequency (Term in years)	➢ Paid periodically: Annually (t=1) Semi-Annually (t=2) Quarterly (t=1/4) Monthly (t=1/12) Daily (t=1/365)	➢ One time – paid at the end of the term
Principal (Aka Capital)	➢ Remains fixed over term	➢ Grows period over period - earns interest on interest
Calculation	➢ Simple, quick calculation $I = P \times R \times T$	➢ Broader, longer calculation ➢ Powerful way to get money to grow in value $I\ (\text{year 1}) = P \times R \times T$ $I\ (\text{yr. 2}) = [P + I\ (\text{yr. 1})] \times R \times T$ $I\ (\text{yr. 3}) = [P + I\ (\text{yr. 2})] \times R \times T$ (and so forth throughout the term)

I = INTEREST money earned in dollars

P = the PRINCIPAL starting amount of money (loan or investment value)

R = the interest RATE for the term

T = the TERM (or "time period") the money is invested or borrowed for



FINANCIAL LITERACY PROGRAM

RBC Wealth Management