



Investing basics: Compound interest



Discovery (15 mins)

#1 Reflect on these questions:

- How can money work for you?
- What is the difference between simple interest and compound interest?

#2 As a group, watch the video: My Five Cents

- List the terms that stand out to you as you watch the video (e.g. compounding, superannuation).
- As a group, find the definitions of the noted terms using the search function on the Money Smart website.



Get practical (35 mins)

As a group, use the Money Smart Compound Interest Calculator to complete:

#1. In the video, after 10 years Romesh has \$13,349 while Lucia has \$27,196.

- Romesh begins to deposit \$100 monthly into the account. How much does he accumulate after 12 years?
- Lucia stops depositing \$100 monthly after 10 years. How much does she accumulate after 12 years?
- How much should Romesh deposit every month in those 12 years to exceed Lucia's amount at the end of 12 years?

#2. Imagine you received \$10,000 to put into a savings account with interest of 2%p.a., compounded annually for 10 years. What would the final amount be if you made the following monthly deposits?

- \$0 per month / \$10 per month / \$20 per month / \$50 per month

#3. Using the same conditions as #2, which is better: depositing \$10 per week, \$20 per fortnight, or \$50 per month? (Explain your reasoning using the calculations).

#4. Think of your own circumstances: How much would you be able to put into a savings account? How much would that accumulate over 10 years?

#5. Can you think of a real-world example where compound interest works **for you**, and one where it works **against you**? (e.g. how a bank uses compound interest in loans).



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