

Exploring Money Makers

Why Save? You are never too young to start saving for retirement. Don't put your financial future in someone else's hands. Learn to manage your own money. Understanding and handling your own personal finances will give you a strong foundation for your future, and will give you power in becoming a responsible adult.

During your reading of "Money Talks", you discovered the power of compound interest. By investing a little for a long time, you will end up with a lot. Today you will play with the Compound Interest Calculator, and discover the money you can make with different types of investing.

Directions: Go to the Compound Interest Calculator

<http://www.econedlink.org/interactives/EconEdLink-interactive-tool-player.php?iid=2>

Work through the following scenerios:

Key vocabulary:

Principle- The original amount invested

Interest- An amount earned from an investment.

Savings Accounts:

A savings account is held at a bank or other financial institution that provides principal security and a modest interest rate. Savings accounts are generally for money that you don't intend to use for daily expenses. With a savings account you can usually get to your money easily. Savings accounts are a secure way of investing money with no risk.

Scenario 1: Change the monthly savings to \$150 per month and put your current age for the starting age. Savings account interest is usually low, so change the interest rate to 1%, then calculate.

How much money would you have by the time you retire at age 65? _____

Did you pay more principle or earn more interest? _____

Change the age to 35 with this same scenerio, how much money by age 65? _____





Certificate of Deposit:

A certificate of deposit is a promissory note issued by a bank (similar to a savings account). It is a time deposit that restricts a person from withdrawing their money for a certain period of time. Interest rate for this type of account is usually higher because your money has restrictions.

Scenario 2: Change the monthly savings to \$150 per month and put your current age for the starting age. Certificate of Deposit accounts are usually higher than a savings because you have to leave your money there for a longer period of time, change the interest rate to 3%, then calculate.

How much money would you have by the time you retire at age 65? _____

Did you pay more principle or earn more interest? _____

Change the age to 35 with this same scenerio, how much money by age 65? _____



Stock Market:

Stocks are units of ownership in a company. When you buy stock you become a shareholder, which means you now own a "part" of the company. If the company's profits go up, you "share" in those profits. If the company's profits fall, so does the price of your stock. Since this type of investment is risky, the interest rates are usually much higher than a safe investment.

Scenario 3: Change the monthly savings to \$150 per month and put your current age for the starting age. Stocks usually pay a higher interest than a bank account because of the high risk, change the interest rate to 8%, then calculate.

How much money would you have by the time you retire at age 65? _____

Did you pay more principle or earn more interest? _____

Change the age to 35 with this same scenerio, how much money by age 65? _____

Review:

What factors are important to making a lot of money by the time your retire? _____

Do you believe investing is important? Why? _____

Explore your own scenerio and explain your results: _____
