



What is Interest?

Summary: Help your child learn what interest is and how to calculate simple interest

Age Group: Grades 6th through 8th

Materials: paper and pencil or laptop/tablet, calculator (optional)

Instructions:

Interest is a charge for a loan, usually expressed as a percentage. When you use a credit card to purchase something, there is interest charged on that loan, meaning you pay the cost of the item plus interest. The longer you go without repaying the loan, the more you will pay in interest, as it grows over time. Have your child calculate the total cost of the following items, assuming the item was purchased with a credit card with a simple 20% interest rate. The first is done as an example.

1. Sound System - \$1000
 - a. $1000 \times 20 = 200$ -- this is the amount you'll pay in interest
 - b. 1000 (original price) + 200 (interest paid) = 1200 (total cost of item)
2. New school clothes - \$300
3. Smartphone - \$825
4. Family dinner - \$100
5. Four concert tickets - \$475
6. Tablet - \$750

Extension: With parent permission, research different popular credit cards. Does your bank offer a credit card? Do your favorite stores offer rewards credit cards? Look at the different interest rates they each offer, then calculate how much an item you might want to purchase with these cards would cost.

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