Lesson 3—Handout 4

Interest Rates and the Rule of 72

Try it on your own

Section 1

Calculate how much your initial investment will grow over time.

Complete the following questions using the online compound interest rate calculator at www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator. Enter 0 for monthly contribution and interest rate variance range.

Initial investment	Estimated interest rate	Length of time in years	Compound frequency	Growth in dollars
$250	6%	10	Annual	
$1,000	8%	5	Annual	
$100	4%	15	Annual	

Section 2

Using the same online calculator, calculate how much your money will grow if you contribute $20 a month to your initial savings/investment over the time period. Enter 0 for interest rate variance range.

Initial investment	Monthly contribution	Estimated interest rate	Length of time in years	Compound frequency	Growth in dollars
$250	$20	6%	10	Annual	
$1,000	$20	8%	5	Annual	
$100	$20	4%	15	Annual	

How did total growth change between section 1 and section 2? Why do you think there was such a large difference?

Lesson 3—Handout 4

Interest Rates and the Rule of 72 (Cont.)

Section 3

Interest rates on traditional savings accounts are normally well below the interest rates used in the examples above.

Using the same online calculator, calculate how much your money will grow if you contribute $20 a month and your interest rate is 0.25 percent. Enter 0 for interest rate variance range.

Initial investment	Monthly contribution	Estimated interest rate	Length of time in years	Compound frequency	Growth in dollars
$250	$20	0.25%	10	Annual	
$1,000	$20	0.25%	5	Annual	
$100	$20	0.25%	15	Annual	

Section 4

What are the advantages of saving your money at a bank?

Would you rather invest your money and earn 6 percent interest or save your money in a bank savings account and earn 0.25 percent? Explain your answer below.

Is it realistic for you to save $20 a month? Explain your answer below.

Your friend has just started his first job, working weekends at a local restaurant. He has come to you for advice on saving money at a bank for his first car. He doesn't have any bills and makes around $400 a month. He has already saved $250 and keeps his money at home. Since he is unfamiliar with banks, what advice would you give him regarding saving his money?