

Credit, Debt & Simple Interest

Name: _____ Date: _____

LEARNING OBJECTIVE

The student will calculate simple interest on a loan or credit balance and explain the risks and responsibilities of borrowing money.

MATERIALS NEEDED

- Paper
- pencil
- calculator

HANDS-ON ACTIVITY

1. Learn and record the simple interest formula: Interest = Principal x Rate x Time ($I = P \times R \times T$).
2. Using a sample scenario (e.g., a \$500 credit card balance at 20% annual interest, unpaid for 1 year), calculate the interest owed using the formula, showing your work.
3. Calculate the total amount owed after one year (original balance plus interest).
4. Create a second scenario with a smaller loan amount or lower interest rate and recalculate the interest and total owed, to compare how the numbers change.
5. Create a simple two-column comparison chart summarizing both scenarios' principal, rate, interest owed, and total owed.

QUESTIONS

1. Using $I = P \times R \times T$, show your calculation for the interest owed on a \$500 balance at 20% annual interest over 1 year.

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2. What were the principal, rate, and total owed in your second comparison scenario?

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3. Which of your two scenarios resulted in more interest owed, and what specifically caused that difference (a higher rate, a higher balance, or more time)?
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4. Why is it risky to carry an unpaid credit card balance from month to month instead of paying it off in full?
