



for Grades 6-8



Teacher Presentation Slides

for use with Educator Guide



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LEVEL 3, LESSON 7



UNDERSTANDING COMPOUND INTEREST WARM UP

Principal: An amount of money originally invested, excluding any interest or dividends

Interest: Earnings from lending money

Compounding: Calculating interest on both principal and previously earned interest

You have placed \$2,000 (called the **principal**) into a savings account. Your bank offers a generous interest rate of 5%, compounded annually. Using the table below, determine how much money your \$2,000 would increase to in five years.

Year	Balance	Interest	Total
1	\$2,000	\$100	\$2,100
2	\$2,100		
3			
4			
5			

Compound Interest Formula

$$A = P \left(1 + \frac{r}{n} \right)^{nt}$$

P = principal amount
(the initial amount you borrow or deposit)
r = annual rate of interest (as a decimal)
t = number of years the amount is
deposited or borrowed for
A = amount of money accumulated after n years,
including interest
n = number of times the interest is compounded per year