

# Where Interest Comes

Compare yearly interest from a bank account and a bond.

**SS.8.FL.5.2** "Calculate the amount of interest income received from depositing a certain amount of money in a bank account paying 1 percent per year and from owning a bond paying 5 percent per year in order to analyze that interest is received from..."

NAME \_\_\_\_\_

DATE \_\_\_\_\_

## 1 READ AND MARK \_\_\_\_\_ Read it twice

**YOUR JOB** Underline each starting amount and circle each annual interest rate. Number each amount-rate pair that belongs to the same investment so you can calculate its one-year interest income.

### Money That Earns Money

- ① Interest is money earned when a bank uses deposited funds or when a borrower uses someone else's money. A bank account paying 1 percent per year earns one dollar for every 100 dollars kept in the account for a full year. A bond is a loan made by an investor to a government or corporation. A bond paying 5 percent per year earns five dollars for every 100 dollars invested for a full year. For one year, multiply the starting amount by the rate written as a decimal.
- ② At the start of the year, Amaya places \$800 in a savings account that pays 1 percent annual interest. Her uncle buys a \$800 government bond paying 5 percent annual interest. Both leave their money in place for one full year. Amaya compares the interest income, not the final account or bond value. She needs to identify each starting amount and each annual rate before calculating. The rates stay the same during that year. Neither adds money.
- ③ Later, a local business seeks funds to buy equipment. Devon can put \$1,200 in a bank account paying 1 percent for one year, or he can buy a \$1,200 corporate bond paying 5 percent for one year. A corporate bond means Devon is lending money to the company. The company promises to pay interest under the bond's terms. Interest income is separate from the original \$1,200. Comparing equal starting amounts shows how the rate changes the amount earned in a year.

**2 ANSWER WITH EVIDENCE** \_\_\_\_\_ Use the passage

**1** How much interest income does Amaya receive from her bank account after one year? Show the calculation.

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**2** How much interest income does Amaya's uncle receive from the government bond after one year? Show the calculation.

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**3** How much more interest does the government bond earn than the bank account in Amaya's comparison?

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**4** Calculate Devon's one-year interest from the bank account and from the corporate bond. Which choice earns more interest?

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**3 YOUR TURN** \_\_\_\_\_ Your own words

Choose a starting amount from \$500 to \$5,000 that is divisible by 100. Complete the table to compare one year of interest from a 1 percent bank account and a 5 percent government or corporate bond using that same amount.

| INVESTMENT | STARTING AMOUNT | ANNUAL RATE | ONE-YEAR INTEREST INCOME |
|------------|-----------------|-------------|--------------------------|
|            |                 |             |                          |
|            |                 |             |                          |

**PART 1 • READ AND MARK**

Underline each starting amount and circle each annual interest rate. Number each amount-rate pair that belongs to the same investment so you can calculate its one-year interest income. Accept any marking that follows this job and points at the right text.

**PART 2 • ANSWERS**

| # | QUESTION                                                                                                                 | ANSWER                                                                                                                                                                                 |
|---|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | How much interest income does Amaya receive from her bank account after one year? Show the calculation.                  | <b>\$8. <math>\\$800 \times 0.01 = \\$8</math>.</b>                                                                                                                                    |
| 2 | How much interest income does Amaya's uncle receive from the government bond after one year? Show the calculation.       | <b>\$40. <math>\\$800 \times 0.05 = \\$40</math>.</b>                                                                                                                                  |
| 3 | How much more interest does the government bond earn than the bank account in Amaya's comparison?                        | <b>\$32 more. <math>\\$40 - \\$8 = \\$32</math>.</b>                                                                                                                                   |
| 4 | Calculate Devon's one-year interest from the bank account and from the corporate bond. Which choice earns more interest? | <b>Bank account: \$12, <math>\\$1,200 \times 0.01 = \\$12</math>.<br/>Corporate bond: \$60, <math>\\$1,200 \times 0.05 = \\$60</math>.<br/>The corporate bond earns more interest.</b> |

**PART 3 • YOUR TURN (SAMPLE ANSWER)**

| INVESTMENT      | STARTING AMOUNT | ANNUAL RATE | ONE-YEAR INTEREST INCOME |
|-----------------|-----------------|-------------|--------------------------|
| Bank account    | \$2,400         | 1%          | \$24                     |
| Government bond | \$2,400         | 5%          | \$120                    |

Accept any starting amount from \$500 to \$5,000 that is divisible by 100, used in both rows. Check that the bank interest is 1 percent of the amount and the bond interest is 5 percent of the amount.