

# Middle School Lesson Plan

## Introduction to Earning Interest What are APR and APY?

- **CONCEPT**

Saving and investing money safely and wisely are critical skills for folks of all ages and backgrounds. Armed with the knowledge of how investments work, savvy investors can make informed decisions and determine the best investment choices available to them.

- **OBJECTIVES**

Students will learn to:

1. Define and use investment vocabulary.
2. Discover compound interest and its effect on savings.
3. Compute simple and compound interest.

- **NATIONAL STANDARDS & BENCHMARKS**

**JumpStart Coalition for Personal Financial Literacy** (see appendix)

3<sup>rd</sup> Edition, 2007

National Standards in K-12 Personal Finance Education

Saving & Investing - Standard 3

- **VOCABULARY**

**Principal:** an amount of money owned by an investor and held by a financial institution such as a bank.

**Deposit(s):** the act of establishing, or adding to, existing **principal**.

**Balance:** the amount of money in an account.

**Interest:** the amount of money you earn by leaving **deposits** in a bank or a financial institution. **Interest** is a **percentage** of your **principal**.

**Term:** the period of time an investment lasts.

**Compound Interest:** **interest** calculated on **both** the **principal** you have on **deposit** and **interest** that has accumulated in the past.

**Compounding Period:** the amount of time that elapses between **interest** payments.

**Annual Compounding** - once per year.

**Quarterly Compounding** - once every 3 months.

- Jan - March 1<sup>st</sup> Quarter
- April - June 2<sup>nd</sup> Quarter
- July - Sept 3<sup>rd</sup> Quarter
- Oct - Dec 4<sup>th</sup> Quarter

**Monthly Compounding** - once per month.

**Annual Percentage Rate (APR)**: the percentage rate at which interest is calculated **annually**.

**Annual Percentage Yield (APY)** - the actual rate your money earns taking **compounding** into consideration.

- **TEACHING MATERIALS**

1. **Lesson Plan**
2. **Teacher Worksheet**
3. **Now You Try Student Worksheet and Answer Key**
4. **Middle School Assessment Worksheet and Answer Key**

- **LESSON ACTIVITY**

**Annual Compounding - Certificate of Deposit**

- The teacher will discuss the following vocabulary terms with the students: **principal, deposit, balance, interest, term, and APR**. He/She will define an annual **certificate of deposit** (which compounds annually) and review Example 1 from the **Teacher Worksheet**.
- Next, the teacher will discuss the terms **compound interest** and **compounding period** with the students. He/She will review “Example 2” from the **Teacher Worksheet**.
- The students will practice interest calculations using page one from the **Now You Try Worksheet**.

**Quarterly Compounding - Statement Savings Account**

- The teacher will discuss **quarterly compounding** with the students through the review of the definition and the notes from the **Teacher Worksheet**. He/She will explain that statement savings accounts are examples of accounts that often compound quarterly.
- Next, the teacher will review the pre-calculated example of quarterly interest payments, Example 3, from the **Teacher Worksheet**.
  - **Note:** the calculations presented do not take into account that different months have different numbers of days. **Quarterly** calculations are done by computing annual interest then dividing by four.
- Using the **Teacher Worksheet**, the teacher will compare the interest earned between the two accounts covered thus far: CDs and statement savings accounts.
  - The teacher will explain to the students that **annual interest paid quarterly > annual interest paid annually**. He/She will define and calculate **APY**.
- The students will practice quarterly interest calculations using page two of the **Now You Try Worksheet**.

- **Monthly Compounding - Money Market Savings Account**

- The teacher will discuss **compounding period** and **monthly compounding** with the students through the review of the definitions and the notes from the **Teacher Worksheet**. He/She will explain that money market savings accounts usually compound monthly instead of quarterly.
- Next, the teacher will review the pre-calculated example of monthly interest payments, “Example 4,” from the **Teacher Worksheet**.

- **Note:** the calculations presented do not take into account that different months have different numbers of days. **Monthly** calculations are done by computing annual interest then dividing by 12.
- The students will practice calculating monthly interest using page 3 from the **Now You Try Worksheet**.

**Annual vs. Quarterly vs. Monthly Compounding**

- Using the **Teacher Worksheet**, the teacher will compare all three compounding periods.

**ASSESSMENT/ EVALUATION**

The teacher will assess the students' knowledge of earning interest using the **Middle School Assessment Worksheet**.

- **APPENDIX**

**Jump\$tart Coalition for Personal Financial Literacy**

3<sup>rd</sup> Edition, 2007

National Standards in K-12 Personal Finance Education

Page 25 of this PDF document: <http://www.jumpstart.org/guide.html>

Saving and Investing

- Overall Competency
  - Implement a diversified investment strategy that is compatible with personal goals.
- Standard 3
  - Evaluate investment alternatives.

Middle School
<ul style="list-style-type: none"><li>• Compare the risks and returns of various investments.</li><li>• Calculate investment growth given different amounts, times, rates of return, and frequency of compounding.</li><li>• Identify the appropriate types of investments to achieve the objectives of liquidity, income, and growth.</li></ul>