

Interest and Compound Interest



- In the business world, if **you lend** someone something, **he or she has to pay** for it.
- If you have a tool hire shop, your customer has to **pay you a fee** to borrow your electric drill or saw.
- Interest can be calculated on a simple or compound basis.



- If you **lend** money to someone, **he or she has to pay you** for the use of your money.
- If you **borrow** money from someone, **you have to pay for it**.
- This extra money that the borrower pays to the lender is called **interest**.
- If I **borrow R100** from a microlender for three months, and **he or she charges me R25 interest**, then I have to pay back R125 at the end of the three months. This is **25%** extra over three months. If you multiply the three months by four, you get one year. If you now multiply the 25% by four, you get a simple interest rate of 100%. Can you now see what **interest rate** per year the microlender is charging you? 100% per year! This is terribly high compared with other kinds of borrowing.



What is a 'percentage'?

A percentage ("per cent" or %) is a fraction just like $\frac{1}{2}$ or $\frac{1}{4}$. But it is always written over like this: $\frac{\quad}{100}$

$$\frac{1}{2} = \frac{50}{100} = 50\%$$

$$\frac{1}{4} = \frac{25}{100} = 25\%$$

$$\frac{1}{20} = \frac{5}{100} = 5\%$$

$$\frac{1}{50} = \frac{2}{100} = 2\%$$

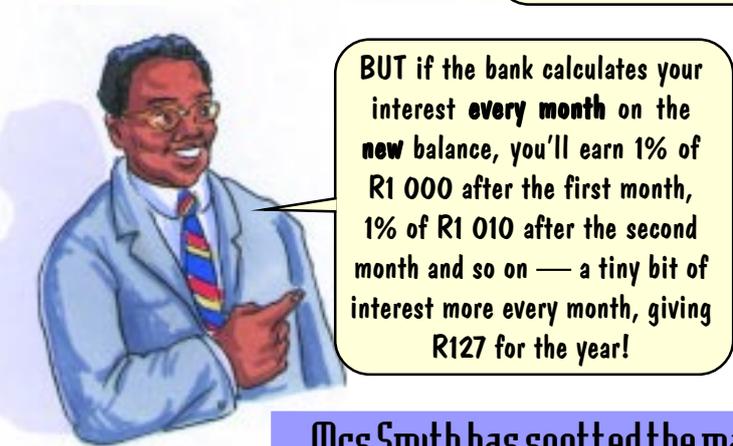
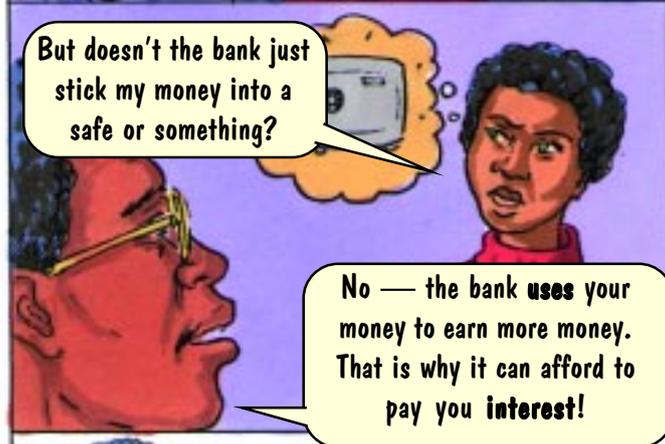
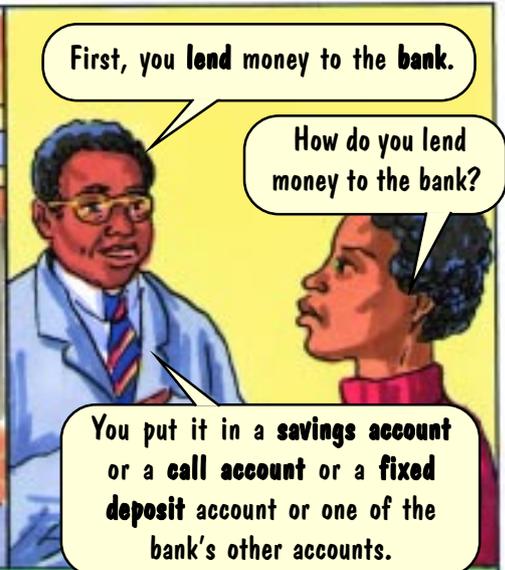
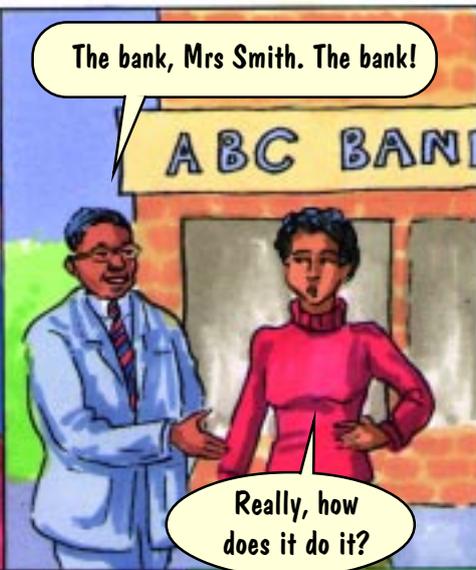
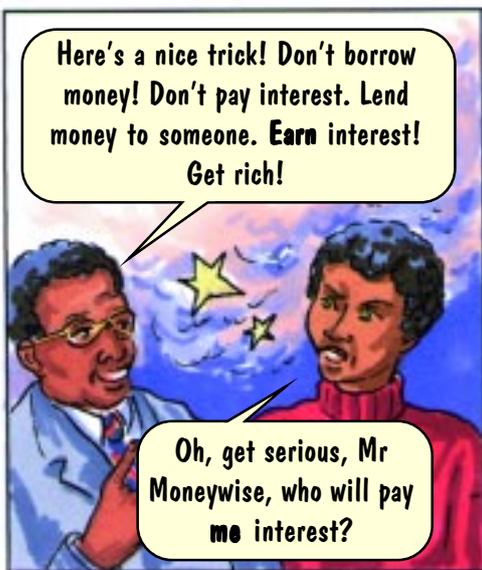


Watch out!

Interest rates vary greatly! Shop around for the lowest rate when you borrow money.



The Usury Act *excludes microloans*. Although interest rates on other loans are controlled, they may change from time to time. *Check what the rate is before you borrow money.*



Mrs Smith has spotted the magic of COMPOUND INTEREST!