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# Interest Income

## Dear Parents,

Your child has been learning about income: from jobs, savings accounts, stock dividends, and rental income. Help your child practice skills by reading the following story and then calculating interest income in the questions that follow.

**Jules and Jordan's grandparents are retiring and need to make the most of their income.** Their grandfather received $10,000 from his employer when he retired to cover the amount of unused vacation time he had accumulated. Jules and Jordan researched savings alternatives and found the two options listed to the right.

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|---|---|
| **A savings account at their bank that pays 2% (1/50) interest per year. Withdrawals can be made to the account at any time.** | **A certificate of deposit account that pays 4% (1/25) interest per year. Money put into this account must stay there for four years and cannot be taken out without a penalty.** |

### Calculate the Income: Savings Account

How much interest income would the grandparents receive each year if they invested the entire $10,000 in the savings account? (To get the answer, multiply the amount by the interest rate.)

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### Calculate the Income: Certificate of Deposit

If the grandparents invested the entire $10,000 in the certificate of deposit, how much interest income would they receive each year? What are the advantages and disadvantages of the certificate of deposit over the savings account?

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**ANSWER KEY:** Savings Account: $200 ($10,000 x .02) Certificate of Deposit: $400 ($10,000 x .04) The certificate of deposit has the advantage of greater interest income, but requires the money to be kept in the account for a long time. It also cannot be taken out without penalty.