WORKSHEET 3

MAKING MONEY WHILE YOU SLEEP

Three months after setting up their budget, cutting their expenses, and working part-time jobs, Jason and Amy have each saved about $450. Up until now, they have had Cuckoo Cones directly deposit funds into a savings account. They felt great about the progress they were making toward their goal of saving enough to buy a new car. Then they had a conversation with their friend Aaron, treasurer of their 8th-grade class. Aaron told them that they could make even more money by looking into an account that paid higher interest. Of course their money was safe (savings accounts are insured by the FDIC [Federal Deposit Insurance Corporation]), but banks offer many types of interest-bearing accounts and certificates of deposit that are also government insured.

Jason and Amy decided to check it out. They researched different accounts online and were confronted with an overwhelming number of offers. (See chart at right.)

ACCOUNT TYPE	DESCRIPTION
CHECKING AND SAVINGS ACCOUNTS	Checking accounts with no interest: $2 service charge per month
	Savings accounts with 1% annual interest
CERTIFICATES OF DEPOSIT	One-year certificate of deposit (CD) with 1.5% interest
	Two-year CD with 2% interest, compounded annually
	Five-year CD with 3% interest, compounded annually

QUESTIONS

Show your work on separate paper.

1. How much interest would Amy earn if she deposited $400 in the savings account example after two years?
2. What would be the value of the checking account if Jason deposited $400 and kept it there for one year and nine months?
3. How much more interest would Amy earn if she invested $500 in the two-year CD option versus a savings account?

NOW TRY THIS!

Suppose you won $500 in an essay contest and decided to save it at a bank. Would you open a savings account, checking account, or CD? Consider the higher rates of longer-term CDs as well as the easier access to your funds found with a checking or savings account. Include your calculations in your answer.

DEFINITIONS:

- **Interest:** The charge for borrowing or using money, calculated as a percentage of the amount borrowed.
- **Formula for interest compounded annually:** $A = P(1 + r)^t$ where A is the ending amount, P is the amount deposited (principal), r is the interest rate, and t is the number of years.