What is interest?

Savers earn it. Borrowers pay it.

Answers and teaching notes

For the teacher

- **Aim:** Pupils understand interest as the price of money: savers earn it and borrowers pay it. They find 10% and 5% of round amounts and work out simple interest for one year.
- **Curriculum links:** Financial Education Planning Framework, ages 9 to 11: managing risks and emotions (interest on saving and on borrowing). PSHE: economic wellbeing. Citizenship: saving and borrowing. Maths: percentages of amounts (10% and 5%), adding money.
- **Watch first:** the Penny Explains video "What is interest?" at pennyexplains.com.
- **Starter:** Ask: would you lend your bike to someone for a whole year for nothing? What would be fair? Link it to interest: a payment for using someone else's money.
- **Support:** Use the first row of the table in activity 2 as a model. Pupils find 10% first every time, then halve it for 5%. The rates are round numbers for easy sums; real rates change often.
- **Stretch:** Zofia leaves her £105 in the bank for a second year at 5%. Why will she earn a little more than £5 this time? (She now earns interest on £105, not £100. This is compound interest, met again at Key Stage 3.)
- **Total:** 44 points. Suggested answers are shown in red; accept any answer that is well reasoned.

I can...

- ☐ I can explain that savers earn interest and borrowers pay it.
- ☐ I can find 10% and 5% of an amount of money.
- ☐ I can work out the interest for one year.

Key words

Interest: extra money a bank pays to savers, or charges to borrowers.

Saver: someone who keeps money to use later.

Borrower: someone who uses a bank's money for a while, then pays it back.

Per cent (%): out of every hundred. 5% means 5 out of every 100.

1 Fill the gaps

5 points

Use the words in the box to finish the sentences. Use each word once.

free | earn | lose | bank | percentage | pays | price

Interest is the **price** of money. When you save, the bank **pays** you interest. When you borrow, you pay interest to the **bank**. Interest is shown as a **percentage**, like 5% a year. So savers **earn** interest and borrowers pay it.

2 Percentage warm-up

8 points

Find 10% and 5% of each amount. The first row is done for you.



Penny says: To find 10%, divide by 10. To find 5%, find 10% and then halve it.

Amount	10% of it	5% of it
£100	£10	£5
£200	£20	£10
£50	£5	£2.50
£400	£40	£20
£1,000	£100	£50

3 Interest for one year

8 points

Show your working in the box.

a) Zofia saves £100 for one year. The bank pays 5% interest. How much interest does she earn?

Working

10% of £100 = £10
5% is half of £10 = £5

Answer: £5

b) How much is in Zofia's account at the end of the year?

Working

£100 + £5 = £105

Answer: £105

c) Uncle Marcus borrows £200 for one year. He is charged 10% interest. How much interest does he pay?

Working

£200 ÷ 10 = £20

Answer: £20

d) How much does Uncle Marcus pay back altogether?

Working

£200 + £20 = £220

Answer: £220

4 Earn it or pay it?

6 points

Who earns interest and who pays it? Write each one in the right box.

Gran has a savings account | Uncle Marcus borrows £200 | Dan saves his birthday money | A café borrows to buy an oven | Zofia saves £100 at the bank | A family borrows to buy a home

Earns interest (saver)	Pays interest (borrower)
Zofia saves £100 at the bank	Uncle Marcus borrows £200
Gran has a savings account	A family borrows to buy a home
Dan saves his birthday money	A café borrows to buy an oven

5 Odd one out

4 points

Work each one out. Circle the odd one out in each row and say why.

5% of £100 | 10% of £50 | **5% of £200** | Half of £10

Why? 5% of £200 is £10. The others are all £5.

Saver | Savings account | Earns interest | **Pays interest**

Why? A borrower pays interest. The others go with saving.

6 Who would you rather be?

4 points

Read the story, then answer the questions.



Hana **saves** £300 for one year at **5%** interest, so she can buy a bike next year. Her neighbour Mr Cole **borrows** £300 for one year at **10%** interest. He buys a bike today, so he can cycle to his new job.

a) How much interest does Hana earn? How much interest does Mr Cole pay? 2 marks

> Hana earns £15 (10% of £300 = £30, and half of £30 = £15). Mr Cole pays £30 (£300 ÷ 10).

b) Who would you rather be, the saver or the borrower? Why? 2 marks

> Own answer with a reason. Hana gains £15 but waits a year. Mr Cole pays £30, but can cycle to work now. Borrowing can be sensible if you can pay it back.

7 Think like a bank

Challenge · 2 points

Penny says: Remember: a bank lends out the money that savers put in.

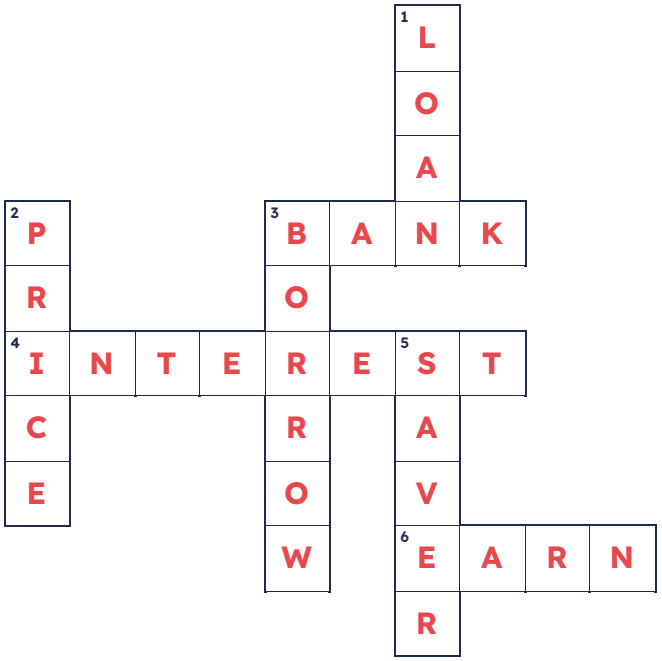
Why does a bank charge borrowers more interest than it pays savers?

The gap is how the bank earns its money. It uses the difference (here 10% – 5%) to pay its staff and costs and to make a profit.

8 Interest crossword

7 points

Use the clues to fill in the grid.



Across

3. It looks after savings and lends money (4)

4. Extra money a bank pays savers or charges borrowers (8)

6. Savers … interest (4)

Down

1. Money that is lent and must be paid back (4)

2. Interest is the … of money (5)

3. Use the bank's money for a while, then pay it back (6)

5. Someone who keeps money to use later (5)

9 Before you go

One thing I learned today

One question I still have

How sure do I feel?

Not yet · Getting there · Got it

Take it home

Ask a grown-up: have you ever **earned** interest or **paid** interest? Together, work out **5% of £200**.

© Penny Explains · pennyexplains.com · Free to print and copy for teaching.

Education, not financial advice.