Simple interest

Interest is a fee paid for borrowing money or other assets. The amount borrowed is called the principal. The interest is expressed as a percentage rate of the principal for a given time interval.

**Simple Interest Formula**

\[ I = P \times R \times T \]

**NOTE:** Convert the percentage to a fraction or a decimal fraction. For example, if the rate is 5%, then use 5/100 or 0.05 in the formula.

**Examples**

To buy a new car I need to borrow $30,000.00 for 3 years at a rate of 12.5% per annum. What will my total repayments be?

\[ I = P \times R \times T \]
\[ = $30,000 \times 0.125 \times 3 \]
\[ = $11,250 \]

**Total**

\[ = P + I \]
\[ = $30,000 + $11,250 \]
\[ = $41,250 \]

My total repayments will be $41,250.00.

The bank interest rate for term deposits is currently 5.75% per annum. How much interest would an investment of $10,000.00 for 6 months earn?

**NOTE**: 6 months = 0.5 of a year

\[ I = P \times R \times T \]
\[ = $10,000 \times 0.0575 \times 0.5 \]
\[ = $287.50 \]

The investment would earn $287.50.