

What is simple interest?

When you save money at a bank, the bank pays you extra money called interest.

The amount of interest the bank gives you depends on three things.

One, the amount of money you start with. This is called the principal. Two, the interest rate. This is a percentage of the principal. And three, how long you save for. The longer you save, the more time your money spends having interest added.

Let's say Jack deposits £1,000 into a bank at 5% interest.

Simple interest is always based on the principal.

After one year, the bank calculates 5% of the principal, which is £1,000. That equals £50.

That means at the end of one year, Jack would have £1,000 add £50, which equals £1,050 in the bank.

So that's good news for Jack and also good news for the bank, because while your money is in one of their accounts, they can lend it to someone else and charge them a higher rate of interest.