Practice Problems: simple interest

On the GED math test, the formula for simple interest is provided.

I = Prt *Where, I = interest, P = principal, r = rate, t = time*

Key points about this formula and simple interest problems:

- The interest rate, r, is ALWAYS an annual (per year) rate. So, the time factor in the *problem must be converted to years (or a fraction of a year)*.
- CAREFULLY read the problem to be sure you provide the answer to what is being asked. Some problems may ask for an interest amount, others may ask for something like interest+principal (the total amount to be paid for a loan).
- Remember: always convert the % interest rate to a DECIMAL when you do simple interest calculations.

Problems: (answers on Page 2)

1 Jack borrowed a sum of $12,000 from a financing company for 3 years at 15% per annum. What is the total interest he paid in 3 years?

A. 1,800 B. 3,600
C. 5,400 D. 1,500

2 Ricardo borrows $1,850 for 10 months at an interest rate of 12.25%. What amount will he have paid back at the end of the loan period?

A. $188.85 B. $2,266.25
B. $2,038.85 D. $2,121

3 Amanda took out a loan of $1,200 with an interest rate of 3% APR (annual percentage rate). How much interest would she owe after one month?

A. $6 B. $12
C. $3 D. $9

4 Selena borrowed $2,500 at 5% annual interest from a bank. She paid the loan off in a lump sum amount six months after she got the loan. How much did she pay the bank?

A. $2,562.50 B. $2,700.00
C. $2,625.25 D. $62.50

5 You put $1,000 into a bank savings account that pays 5% annual interest. Each year, you leave the interest in the account. How much interest would your account have earned after 3 years?

A. $150.00 B. $200.45
C. $160.00 D. $157.63

6 Jason is starting his own small business in Albuquerque. He borrows $10,000 from the bank at a 9% rate for 5 years. Find the interest he will pay on this loan.

A. $4,500 B. $4,000
C. $450 D. $3000

7 Tamera invests $3,400 at 5-1/4% interest for 3 years. How much interest will she be paid at the end of the time period?

8 Juan borrowed $1,300 at 9% APR for 18 months. Which expression could be used to find the amount paid back at the end of the loan period?

A. $1,300 x 9 x 1.5
B. $1,300 + ($1,300 x 0.09 x 1.5)
C. $1,300 x 0.09 x 1.5
D. $1,300 + ($1,300 x 9 x 1.5)

9 Saquon is evaluating certificates of deposit (CDs) from his credit union. He wants to invest $1,000. CD "A" pays 1.835% interest at the end of 24 months. CD "B" pays 0.925% interest at the end of 12 months. How much more interest will he earn with CD "A"?

10 Viv borrows $1,500 from her uncle for 9 months at 5%. What's the total amount she'll pay back to her uncle? (Round to the nearest penny.)

Answers:

1. C
2. B
3. C
4. A
5. D
6. A
7. $535.50
8. B
9. $27.45
10. $1,556.25