



# Interest Rates

## What they are & why they matter

### Basic Rules

### Supply & Demand

#### First, two definitions:

**Supply** – the amount of a product

**Demand** – the number of people who want the product

#### Now, the rules:

#### Prices will usually increase if:

The demand increases and the supply stays the same...**or**...the supply decreases and the demand stays the same.

In these two instances, you don't have enough of what people want—like when a new smart phone hits the stores. A lot of people want one on the first day, but not everyone can get one.

#### Prices will usually decrease if:

The demand decreases and the supply stays the same...**or**...the supply increases and the demand stays the same.

In these two instances, you have too much of something and not enough people to buy it—like when the least popular holiday toy is still sitting on the store's shelves and it's a week after the holiday.

You're in the car with your mom and you forgot your MP3 player. Of course, today your mom's not listening to music. She's listening to some talk radio guy who keeps talking about interest rates.

So you think, "What are interest rates?"

### What interest rates are

Interest rates are the prices that people pay to borrow money.

**Example:** Your mom and dad take out a loan from the credit union to buy a car. They'll pay interest on the money that they borrow.

**What that means:** When they pay the credit union back, they'll pay the actual amount that they needed to buy the car plus the "cost" of the loan (the interest).

### Why interest rates matter

Interest rates, like other prices, are determined by the forces of supply and demand. (See the sidebar for more information about supply and demand.)

Interest rates are important, because if the interest rates are higher, then people are encouraged to save more and borrow less. Why? Because they don't want to pay too much money to borrow money!

If the interest rates are lower, then people are encouraged to borrow more and save less. Why? Because they won't have to pay too much money to borrow money!



# A Web of Numbers

The Internet is packed—and most of its users tend to visit many of the same sites. Here are some numbers associated with the biggest, busiest destinations on the Web (from the Web data firm Alexa):

**Wikipedia** – The online encyclopedia ranks sixth in U.S. traffic, and seventh globally. The average visitor spends about five minutes on the site, and about 52 percent of those visits are “bounces” (users who view just one page before leaving).

**Amazon** – Online since 1992, Amazon’s users are more often female than male (55 percent versus 45 percent); about 19 percent of its visitors are referred to it by search engines. The average load time for an Amazon page is 1.783 seconds.

**YouTube** – Only 22 percent of YouTube visitors come from the U.S., and about 27 percent of video visits are bounces. More than 755,000 websites link to it.

**Twitter** – Visitors to the 140-character posting site view an average of 3.5 unique pages per day. They spend about seven minutes on the site, and 51 seconds per page view. Sixty-two percent of the visitors are women.

**Facebook** – With more than 500 million users, the social network is ranked second in U.S. traffic. The highest percentage of users (30 percent) are in the 45-54 age range, and 57 percent of them are female.

Which of these sites do you visit most often? How about your friends and parents? Conduct your own survey and find out!



## Funny but True

- Q.** What is the quickest way to double your money?  
**A.** Fold it in half!

Did you save enough money to buy Christmas presents for your friends and family? Did you run short? You need to have a saving and spending plan or, as it’s more often called, a budget. Learn how to use a budget to know how much money you bring in, how much you spend on things like gas, groceries, meals, entertainment, and how much you save. Make your own budget worksheet by using our [budget worksheet form](#). Think of your budget in terms of two things: money and time. Money is divided into its own two categories: Income and Expenses. Visit the iCount website! Go to [www.coloramo.org](http://www.coloramo.org), click on the Savings/Checking tab and click Kids. Then, click on the iCount picture. Click on iBudget and plug in figures to learn how to save for things you want to buy in the future and know where your money is going! It’s an important tool to help you manage your money.