Banking, Budgets & Why Money Matters

Grade 6 Name: _____

Read the passage carefully. Then answer each question in a full sentence, citing evidence from the text. Use quotation marks when quoting directly.

Leo's Growing Pennies

Leo, a curious sixth grader, loved saving money. Every time he helped his neighbor with yard work or received a birthday gift, a portion went straight into his special savings account. He wasn't just putting money away; he was learning about how money could actually *grow* on its own. His grandmother, a retired bank teller, often shared wise advice. She told him about "interest," explaining it was like a thank-you payment from the bank for letting them use his money. This concept fascinated Leo, making him eager to learn more.

Leo soon learned that there are different kinds of interest. Simple interest is calculated only on the original amount saved, a straightforward concept. But the real magic, his grandmother explained, was "compound interest." This meant earning interest not only on his initial savings, but also on the interest he had already earned. It was like a snowball rolling downhill, getting bigger and bigger with every turn. This powerful idea, often called the "eighth wonder of the world," has been understood and used by bankers and investors for centuries. It became a cornerstone of modern finance because it allows wealth to grow exponentially over time.

To truly show Leo the power of compounding, his grandmother gave him a concrete example. "Imagine you save $1,000 today," she began. "If it earns a modest 7% interest each year, after just one year, you'd have $1,070. The next year, you'd earn 7% on $1,070, not just the original $1,000. So, after 10 years, your $1,000 would become about $1,967. After 20 years, it would be around $3,870, and after 40 years, that initial $1,000

could grow to an amazing $14,974!" This calculation clearly showed Leo how time and compounding worked together to build significant wealth.

Leo realized that his savings account, which was growing, was an important "asset." An asset is something valuable he owned that could increase his wealth over time. He understood that while an asset adds to his financial strength, a "liability" like a loan means money owed to someone else, which reduces his wealth. He also learned about "inflation," which is when prices for goods and services rise, making money worth less over time. Compound interest was a strong tool to fight inflation, helping his money keep its buying power. To make sure he always had money to save, Leo started creating a simple "budget," tracking his income and expenses carefully. This helped him see where his money was going and find ways to save more.

Understanding compound interest made Leo feel more in control of his financial future. He knew that making smart choices now, like saving consistently and letting his money grow, was crucial for long-term success. Even though he was young, he was building excellent financial habits. His grandmother also mentioned that building good "credit" later in life, by showing he could responsibly manage borrowed money, would be important for big purchases like a house or car. The lesson was clear: start saving early, let compound interest do its work, manage your money wisely through a budget, and understand the difference between assets and liabilities.

COMPREHENSION QUESTIONS

(1) What did Leo's grandmother tell him "interest" was?

(2) In paragraph 4, what does the word "asset" mean?

(3) What is the main idea the author wants readers to understand about compound interest?

(4) Why does the author include the specific example of $1,000 growing to $14,974 over 40 years?

(5) Based on the passage, why is it important for Leo to start saving money early?

(6) Do you think the concept of compound interest, as described, is fair for everyone who saves money?

(7) How could Leo use the concept of a "budget" to help him achieve his financial goals, based on the story?