

Pounds and Pence, what can you do with money?

[Music]

Everyone's trying to find new ways of getting the most out their money. Because the more you have, the more you can do. But not everyone is lucky enough to have lots of money. So how do you make the most out of ten pounds? Well you could spend it or you could save it for a rainy day. Where would be a safe place to keep this?

Ever heard of a bank? Your money won't get lost and if you leave it in that for a while, when you take it out again you usually get more money back. How does it work? The magic word is interest. Banks are like any other business, they want as many customers as they can get. To persuade you to choose them, the bank pays you an amount of money to keep your money in their bank. Interest. You might put in a tenner, and after year, get £10.20 back when you take it out again. But it works the other way too.

The big things in life, cars, houses, not many people can afford to pay for them in one go. You could save up for it, but where are you going to live or what are you going to drive in the mean-time?

Some people borrow money to buy the things they need.

And banks lend money to people all the time, but not for free. If you borrow money from them, when the time comes to pay it back...

... you give the bank what you borrowed plus a bit more – interest. Banks work out how much the interest will be as a percentage of the main amount.

Here's a simple example. If I put a hundred pounds in the bank and the bank promises to pay me two percent interest a year, how much will they pay me after a year? Or, if I borrow a hundred pounds from a bank, they tell me it'll cost 4% interest a year, how much will I pay them to borrow the money for one year? That percentage figure is called the interest rate. The interest rate is important because it affects whether people spend, borrow or save their money.

A high interest rate is for good savers because they can get more money back from their savings, but is bad for borrowers. A low interest rate has the opposite effect, you make less from your savings but borrowing is cheaper, so people might spend more of their money. The ups and downs of money, there are times when you've got it and times when you haven't.

[Music ends]