

AARAMBH

Understanding How Interest Compounds

Time can become a powerful part of your money plan.

Understand simple interest, compound interest and why starting early can matter. Examples are educational illustrations, not promised returns.

LEARN Understand the basics	THINK Compare risks and choices	ACT Use official channels
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Educational resource • Simple language • No product endorsement

Important: This booklet is for education only. Financial products, rates, eligibility, rules and scheme terms can change. Verify current information from official sources before acting.

The Guide

1. Simple vs Compound Interest

Simple interest is calculated on the original principal. Compound interest allows previously earned interest to become part of the amount on which future interest is calculated.

Compounding frequency and the rate affect the outcome. Always check the actual product terms rather than assuming a fixed return.

2. A Simple Example

Suppose ₹10,000 earns 8% annually and compounds once a year. After one year it becomes ₹10,800; after two years, the second year's interest is calculated on ₹10,800.

This is an illustration only. Actual bank, market or investment returns can differ and some products do not compound in the same way.

3. The Rule of Consistency

Compounding works over time, but it does not remove risk. Regular saving, patience and avoiding unnecessary withdrawals can help a long-term plan.

Inflation also matters: the amount of money you have in the future may buy less than the same amount today.

Remember

Compounding rewards time, but it does not remove risk or inflation.

Your Action Checklist

Use this page during a workshop or at home. Tick each item only when you understand it.

Write down one long-term financial goal.

Estimate a realistic monthly saving amount.

Learn the difference between interest and investment return.

Check inflation and taxes when comparing outcomes.

Review the plan once or twice a year rather than chasing short-term results.

Questions to Ask Before You Act

1	What exactly am I buying, joining, borrowing or authorizing?
2	What could go wrong, and what would I lose?
3	What are the fees, penalties, exclusions or conditions?
4	Who regulates or officially administers this product/scheme?
5	Where can I verify the information independently?

My Notes

Quick Questions & Trusted Sources

Does compounding guarantee wealth?

No. Compounding is a mathematical effect, not a guarantee of investment returns.

What is the biggest advantage of starting early?

More time allows returns, where they occur, to potentially build on earlier returns. It also gives you more time to develop disciplined saving habits.

Can debt compound too?

Yes. Interest and charges on unpaid or revolving debt can increase the amount owed, which is why repayment terms matter.

Trusted starting points

- SEBI Investor education resources on personal finance, compounding and investing (investor.sebi.gov.in).
- RBI financial education material.

Aarambh Note

Aarambh creates simple educational resources to help families and communities understand important financial and digital topics. This booklet does not provide personalized financial, legal, tax or insurance advice and does not endorse any product, provider or scheme.

For current rules, rates, eligibility and official application processes, always check the relevant government, regulator, bank, insurer or other official source.