Chapter 26

Activity File 26-2 Avoiding Investment Pitfalls

**Directions:** Complete the following activity to gain some insight into how to comparison shop.

Quietly putting money aside for a year, Prathiba had built her checking account to $1,000. Since she did not write many checks, Prathiba felt that $1,000 was too much for a checking account. Also, she wanted her money to earn interest.

Prathiba decided to open a regular savings account with $500 transferred from her checking account. She would earn 5.5 percent interest compounded quarterly. Her plan was to leave the $500 in the account so she would earn $28.05 in interest by the end of the year.

During the year, Prathiba had to withdraw $200 for unexpected car expenses and $100 for holiday gifts. In each case, she replaced the money as quickly as she could to bring the balance back up to $500.

At the end of the year, Prathiba was surprised to find that she had earned only $23.84. She asked a cashier at the bank why she had not received more interest. She was told that, although interest was compounded quarterly, it was based on the lowest balance in the account during the quarter. In other words, the interest was computed on less than $500 during two quarters of the year. Prathiba decided to shop for a better savings plan.

1. What questions should Prathiba have asked when she opened her savings account?

<<Place Answer Here>>

2. Would she have been better off borrowing the money she needed for her car expenses and holiday gifts? Explain.

<<Place Answer Here>>

3. What other types of savings plans might Prathiba consider?

<<Place Answer Here>>

4. Ask your instructor where to save your documents. This could be on the school’s network or a flash drive of your own. Name your Word document *FirstnameLastname*\_Activity26-2.docx (i.e., JohnSmith\_Activity26-2.docx).