

Understanding the Concept of Compounding Interest

The Power of Compounding Interest

Compounding interest is the concept that any amount of money invested or borrowed grows exponentially over time, not linearly. This is mainly due to the fact that the interest earned or paid isn't just on the initial sum but also on the previously accumulated interest. It plays an essential role in personal finance, determining the long-term returns of investments and costs on loans. Understanding the power of compounding is fundamental to making wise financial decisions.