



# Debt: The Good, The Bad, & The Ugly

EPISODE #402

## LESSON LEVEL

Grades 6-8

## KEY TOPICS

- Debt management
- Budgets
- Compound interest

## LEARNING OBJECTIVES

1. Understand different types of debt.
2. Learn how budgets help your money serve you.
3. Become aware of compound interest.
4. Learn financial terms.

## EPISODE SYNOPSIS

In this episode you will learn about different types of debt - the good, the bad, and the ugly. Learn how to manage debt, the value of budgeting to stay out of debt, and what resources are available if you get too deeply in debt.

## NATIONAL STANDARDS CORRELATIONS

Aligned to *National Financial Literacy Standards* from the **JumpStart Coalition for Personal Financial Literacy**.

Financial Responsibility and Decision Making

- Standard 1:* Take responsibility for personal financial decisions.
- Standard 2:* Find and evaluate financial information from a variety of sources.
- Standard 4:* Make financial decisions by systematically considering alternatives and consequences.

Planning and Money Management

- Standard 1:* Develop a plan for spending and saving.

Credit and Debt

- Standard 1:* Identify the costs and benefits of various types of credit.
- Standard 3:* Describe ways to avoid or correct debt problems.

Aligned to *Voluntary National Content Standards in Economics* from the **Council for Economic Education**.

- Standard 2:* Decision Making
- Standard 14:* Entrepreneurship

Aligned to **Common Core State Standards Initiative's** standards for *Literacy in History/Social Studies, Science and Technical Subjects*.

*Standard 1:* Read closely to determine what the text says explicitly and to make logical inferences from it; cite specific textual evidence when writing or speaking to support conclusions drawn from the text.

*Standard 4:* Interpret words and phrases as they are used in a text, including determining technical, connotative, and figurative meanings, and analyze how specific word choices shape meaning or tone.

*Standard 7:* Integrate and evaluate content presented in diverse formats and media, including visually and quantitatively, as well as in words.

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# LESSON PREP & SCREENING

## Getting Started

Familiarize yourself with the episode ahead of time. It will serve as a springboard for student learning, discussions, vocabulary exploration, and hands-on activities. Determine what equipment is required to show the episode in your classroom and request it if needed. Choose an activity (each one takes between 45-60 minutes), and gather supplies. Students will need a pen or pencil and copies of the activity worksheets. Have fun!

## Screening

Introduce the series and the episode. Explain that Biz Kid\$ is a public television series that teaches kids about money and business. Mention that the bizkids.com website has lots of video clips, games, a blog, and other resources to help kids start businesses and learn about money. Prior to playing the episode, lead your students in a discussion with the preview questions on this page.

## About the Episode

In this episode you will learn about different types of debt - the good, the bad, and the ugly. Learn how to manage debt, the value of budgeting to stay out of debt, and what resources are available if you get too deeply in debt.

## Episode Preview Questions

Before you show this Biz Kid\$ episode, lead your students in a brief discussion of the following questions:

- Do you have or want a credit card?
- Is there such a thing as “good debt,” and if so, what is it?
- Are you interested in saving yourself thousands of dollars in interest payments, as well as unnecessary stress?

## Next Steps

Show this episode. After the episode, read the Summary and Conclusion to the class.

## Summary and Conclusion

With credit cards, it's easy to spend more than you make. Avoid the pitfalls of overspending by keeping a spending journal and sticking to a budget. Now you know all about debt: the good, the bad, and the ugly!

## Family Connection

Distribute a copy of the Family Activity Sheet to each student to share what they've learned with their families.



# FAMILY ACTIVITY SHEET

## Episode Synopsis

In this episode you will learn about different types of debt - the good, the bad, and the ugly. Learn how to manage debt, the value of budgeting to stay out of debt, and what resources are available if you get too deeply in debt.

## Activity Suggestions

Have a family discussion about the consequences of getting into debt “over your head.” Discuss the benefits and drawbacks of using credit cards. Create a list of steps for your student to take so they know what to do if they ever get into debt. Examples include to make a budget and stick to it, avoid hidden fees, and so forth.

Talk about ‘big ticket’ purchases and whether or not you believe that loans or use of credit is appropriate for these items. This might include buying a car, buying a house, or paying for college. Help your child create a strategy for how they are going to achieve their long-term financial goals. For example, if they want to buy a car, discuss how much they need to save, how much they should finance (if any), and how to find the best prices.

Invite your child to participate in solving financial problems and debt issues by re-evaluating their spending habits to eliminate unnecessary purchases. Keep track of money saved by making these other choices so they can see the positive difference they are making in helping the family.



Activity #1:

# BIZ TERM\$

## WORKSHEET FOR STUDENTS

### Biz Term\$

- Budget
- Compound interest
- Credit
- Debt
- Interest rate
- Loans
- Principal
- Risk
- Spending habits
- Unexpected expenses

### Directions

With students, read aloud the Biz Term\$ and each question. Call on volunteers for answers, and have them explain why they chose the term they believe to be correct.

### Biz Term\$ Episode Review

1. \_\_\_\_\_ is the chance that injury, damage, or loss will occur.
2. A spending plan for managing money during a given period of time is a \_\_\_\_\_.
3. Earning interest on interest is \_\_\_\_\_.
4. \_\_\_\_\_ is the amount of money you owe to others.
5. The amount of money someone is willing to loan you is called the \_\_\_\_\_.
6. \_\_\_\_\_ is an amount of money loaned to you to be repaid at a later date.



# CURRICULUM CONNECTIONS

## Language Arts

- Have students construct sentences, write a paragraph, or create a story, skit, or dialog using Biz Term\$.
- Have students create a class Dictionary of Financial Terms using Biz Term\$.
- Have students start their own Journal of Personal Financial Education and continue to add to it.

## History/Social Studies

- Lending and borrowing money has been around for a long time. In one famous cartoon, a character called Wimpy was always saying “For a hamburger today, I will gladly pay you Tuesday.” Can you think of other examples from television or movies of characters who are always borrowing money? Are these characters portrayed as negative, positive, or neutral? How does our modern society view debt - is it all the same, or do we prefer some types of debt over others?

## Mathematics

- Create a chart to compare the annual percentage rate interest between a payday loan, a credit card, and a bank loan. What conclusions can you draw from this chart?

## Economics

- How does the national debt of the United States affect the economy of our country? Why does it matter how much debt we have, and how does that affect our everyday life?

## Optional Vocabulary Extensions

### Make Art!

Ask students to create personal illustrated glossaries using sketches or cartoons to visually represent the meaning of each Biz Term.

### Make It Personal!

Provide students with dictionaries and ask students to re-write formal definitions for each Biz Term in their own words to demonstrate comprehension.



Activity #2:

# GOOD, BAD, OR UGLY?

## WORKSHEET FOR STUDENTS

### Directions

In this episode, the Biz Kid\$ found out about debt. Now it's your turn to see how much you can remember, and decide if the following debts are good, bad, or ugly, and why.

1. You want a pony. You have always wanted a pony. You can buy a pony for \$1,000. You don't have \$1,000 right now, but you can get a credit card to buy the pony with. Is this good debt, bad debt, or ugly debt? Why?

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2. Ok, you want a pony, and it will cost you \$1,000. You don't have \$1,000 right now, but you do have a business plan for giving pony rides to the kids in the neighborhood, and your bank might lend you \$1,000 to start a business if you have a good plan. Is this good debt, bad debt, or ugly debt? Why?

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3. You want to buy a car. You could take the bus (it's cheaper) but you really want a car. You take out a loan to buy it. Is this good debt, bad debt, or ugly debt? Why?

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4. You want to buy a car so you can get a job as a delivery person. You take out a loan to buy it. Is this good debt, bad debt, or ugly debt? Why?

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5. You love shoes. You open a store credit card and buy \$700 worth of new shoes. Then you realize you can't make the minimum payments, they're higher than you expected. Is this good debt, bad debt, or ugly debt? Why?

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Have students discuss these ideas and share their answers with the class.



Activity #3:

# IS IT WORTH IT?

## WORKSHEET FOR STUDENTS

### Directions

Even if a debt is a “good debt” - something that could give you more earning power in the long run - you still need to decide if it is worth the cost.

1. A high school graduate earns \$9 per hour. A junior college graduate earns \$11 per hour but has to pay back \$3,500 in debt and loses 2 years of work. A college graduate earns \$13 per hour but has to pay back \$7,000 in debt and loses 4 years of work. (Assume a work schedule of 40 hours per week for 52 weeks per year.)

How much have they earned:

	<u>High School Graduate</u>	<u>Junior College Graduate</u>	<u>College Graduate</u>
After 1 year?	\$18,720 earned	owe \$1,750	owe \$1,750
After 2 years?	_____	owe \$3,500	owe \$3,500
After 3 years?	_____	\$22,880 minus \$3,500 debt	owe \$5,250
After 4 years?	_____	_____	owe \$7,000
After 5 years?	_____	_____	\$27,040 minus \$7,000 debt
After 10 years?	_____	_____	_____
After 15 years?	_____	_____	_____
After 20 years?	_____	_____	_____

Is this ‘good debt’ of student loans worth it? Why or why not? What are the risks? What are the benefits?

\_\_\_\_\_  
\_\_\_\_\_

2. A bakery earns \$1 per cookie that it sells. It can make 100 cookies per day with one oven that they already have. If the bakery wants to expand, they need a business loan of \$3,000 to buy a 2nd oven. Assume that they will be able to sell all of the cookies if they expand to 2 ovens. How long will it take to pay off the loan and start earning profit from the 2nd oven? \_\_\_\_\_

Is this ‘good debt’ of a business loan worth it? Why or why not? What are the risks? What are the benefits?

\_\_\_\_\_  
\_\_\_\_\_

Have students discuss these ideas and share their answers with the class.



# BIZ TERMS DEFINITIONS

- *Budget*: A spending plan for managing money during a given period of time.
- *Compound interest*: Interest that is paid on interest that you have already earned.
- *Credit*: A loan of money from a financial institution which must be repaid by a certain date with interest.
- *Debt*: Something owed to another - an obligation to pay.
- *Interest rates*: A percentage, usually on an annual basis, that must be paid back in addition to the original amount borrowed.
- *Loans*: Money temporarily given to you in exchange for repayment with interest.
- *Principal*: The amount of money loaned to you to be repaid at a later date.
- *Risk*: The probability that injury, damage, or loss will occur.
- *Spending habits*: The usual ways people spend their money.
- *Unexpected expenses*: Costs not planned for, such as accidents and emergencies.



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