Debt: The Good, The Bad, & The Ugly

EPISODE #402

ACTIVITIES & LESSONS

LESSON LEVEL

Grades 9-12

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 **Jump$tart 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.

CONTENTS

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.

Does your family know what to do if your credit card information is hacked?

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:

DEBT AS LEVERAGE

WORKSHEET FOR STUDENTS

Lesson Level:

Grades 9-12

Learning Objective:

Understand different types of debt.

Directions

In this episode, the Biz Kid$ found out about debt. Some debts are called 'good' debts. This is because they provide short-term leverage to help you achieve a long-term goal that will (hopefully) put you in a better position financially in the long run.

1. You want to be a librarian. Modern librarians must have a Master's degree in Library Science. This means you will need to go to college for 6 years after you finish high school. If college costs $18,000 per year, and you take student loans to cover this cost, how much will you owe when you finish school? Is this a good use of debt? Why or why not? What are the risks?

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2. You want to buy a small beach cottage to rent out to tourists. You get a home loan with monthly payments of $1,200. How much do you need to charge the tourists per week in order to cover your payments? How much should you charge them if you also want to earn a profit beyond just covering the payments? Is this a good use of debt? Why or why not? What are the risks?

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3. In your own words, describe the difference between good debt and bad debt.

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

Activity #3:

COMPOUND INTEREST

WORKSHEET FOR STUDENTS

Lesson Level:

Grades 9-12

Learning Objective:

Become aware of compound interest.

Directions

Explore the idea of compound interest by reading the table and answering the questions below.

Start with $100	2% interest rate	5% interest rate
n = 1	$102.00	$105.00
n = 2	$104.00	$110.30
n = 3	$106.10	$115.80
n = 4	$108.20	$121.60
n = 5	$110.40	$127.60

1. The number ‘n’ represents the amount of time that has gone by since you invested your $100 that you started with. If your compound interest is calculated monthly, then n=1 means that 1 month has passed. If your compound interest is calculated annually, then n=1 means that 1 year has passed. Which is better for you in this example, monthly or annual compounding? Why?

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2. Notice what happens in the first year. The 2% account has earned $2 and the 5% account has earned $5. Now look at the third year. The 2% account has earned more than $6, and the 5% account has earned more than $15. In your own words, explain why compound interest is more powerful the longer you let it work.

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3. Which will be worth more at the end of 10 years, $100 that compounds at 2% per year, or $10 that compounds at 2% per month? Future value = Present value * $(1 + \text{interest})^n$ where n is the number of times it has been compounded.

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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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