

DOWNSIZE YOUR DEBT

FEDERAL RESERVE BANK of KANSAS CITY

TEACHER INTRODUCTION

This lesson gives students an overview of the problems that can result from being in financial debt. “The Dangerous Pet” PowerPoint, a creative story that highlights dealing with a monster named Debt, is shared and discussed. Students learn about budgeting as they plan ways to earn money in order to pay off their debt.

LESSON DESCRIPTION

Students will learn about the problems associated with debt by viewing “The Dangerous Pet” PowerPoint. They will be introduced to budgeting as a way to track their income and spending. Students will participate in a group activity where they plan ways to earn income to pay off their debt. Two assessment options are included.

GRADE LEVEL

5-8

CONCEPTS

Debt, interest, credit, budget, income

OBJECTIVES

Students will be able to:

1. Define debt, interest, credit, budget and income.
 2. Explain the importance of budgeting as a means to manage income and spending.
 3. Develop a balanced budget in order to pay off a debt.
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TIME REQUIRED

50-60 minutes

MATERIALS

- “The Dangerous Pet” PowerPoint presentation
- 6-8 paper bags (one for each group of 4-5 students)
- Visual 1, I.O.U. Cards, cut out and placed in paper bags
- Hand-out 1, Get Outta Debt, one copy per student
- Hand-out 2, California Dreaming, one copy per student



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PROCEDURE

1. Begin by asking students the following questions:
 - If you had the money available to purchase one big-ticket (expensive) item, what would it be? (*Answers will vary. Possible responses might be a video game system, cellphone, TV, computer, bike, vacation, etc.*)
 - Would you be willing to borrow money to purchase this same item? (*Answers will vary. Some students may not be willing because they don't want the responsibility of paying someone back for their purchase. Others may be willing because they want the item badly.*)
2. Introduce the word **debt** as money owed in exchange for loans or for goods or services purchased with credit. Explain that debt can grow when the lender adds **interest**, an additional payment to be made for the use of the money. Tell them that using **credit** includes a promise of payment at a future time for goods or services now. Ask students if they have heard of the term "I.O.U." before, and what these initials stand for. (*The letters I.O.U. stand for "I owe you," which means a person has a debt with someone for money used to purchase goods and services.*)
3. Ask students to share any debt situations that they may have experienced before. (*Answers will vary. Possible debt situations may include owing a family member or friend for money they have borrowed to purchase an item; owing lunch money to the school cafeteria; or owing money on an overdue library book.*)
4. Tell students that you will be sharing a story about the problems debt can cause, titled "The Dangerous Pet." Ask students to listen for the ways debt can grow and how the boy solves his debt problem.
5. Share the PowerPoint listed in the materials section of the lesson. After the presentation, ask students the following questions:
 - What item did the boy purchase? (*A blue robot.*)
 - What was special about the robot? (*It could dance, think and do tricks.*)
 - How was the boy able to purchase the robot? (*He agreed to feed the blob named Debt, owned by the man in the park. The man had him sign a contract and then gave him money to buy the robot.*)
 - What was the boy supposed to feed Debt? (*Three coins a day.*)
 - What happened when he only fed Debt two coins? (*The blob became creepy and mean-looking, with eyes filled with hate. It burst out of its box and grew larger. It broke down the door and went on a tirade.*)
 - What advice did the boy's parents give him to tame Debt? (*They said he needed to work to earn money and plan a budget so he could pay off the blob.*)
 - How did the boy finally pay off Debt? (*He fed the blob five coins a day until it disappeared.*)
 - What lessons did the boy learn? (*He learned to plan, save and budget before purchasing something, so he would not go into debt. He also learned not to be greedy when he wanted something.*)
 - Why do you think Debt was portrayed as a growing blob in the story? (*Answers will vary. Students may suggest that if you don't pay off debt, it will grow with fees and additional charges. Others may see debt as a growing problem that weighs on the boy.*)
6. Tell students they will get practice handling debt by participating in a game called "It's in the Bag." Set 6-8 paper bags with the I.O.U. cards inside on a table. Divide students into groups of 4 or 5 and ask each group to randomly choose a paper bag.
7. Ask each group to open their bag and look at the I.O.U. card inside. The card will list an item purchased and the amount of the debt owed. At this point, the group can barter or trade their bag with another group if they'd like, without telling their trading partners any information about the debt.



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8. Once bartering is finished, tell groups that the I.O.U. they chose is now their debt to pay off. Ask students if they remember hearing the word “budget” in the story. (*Answers will vary.*) Explain that **budget** means a plan for managing income, spending and saving during a certain time period. Tell them that **income** is payment you earn or receive from different sources. Remind them that the boy in the story learned to plan a budget and earn income to pay off his debt.
9. Distribute copies of Hand-out 1, Get Outta Debt, to all group members. Tell groups that they will use the activity sheet to decide on jobs to earn income and plan their budget to pay off the debt. Follow directions on the hand-out to list names, jobs chosen, and income X number of months worked in the columns on the right. The group should also list their debt item and amount in the columns on the left. Students should then add income totals to see if they will earn enough to pay off their debt. If they don't reach the debt item amount, they will have to adjust their jobs or number of months worked to earn more for their payoff. Any extra income earned becomes group savings!
10. Ask a student to report for each group, listing the debt item and amount, jobs chosen, total group income and any group savings. Ask students the following questions:
 - Was it easy or hard for your group to choose jobs and plan to earn enough income to pay off the group debt? (*Answers will vary, depending on group dynamics and cooperation.*)
 - Do you think the amount of work needed to earn enough money for payment was worth your debt item? Why or why not? (*Answers will vary. Some groups may think there was too much work involved to get out of debt, particularly if they did not really want the debt item; others may think owning the item was worth the work involved to pay it off.*)

CLOSURE

Review concepts learned through the following questions:

- What is debt? (*Money owed in exchange for loans or for goods and services purchased with credit.*)
- What is interest? (*A payment made for the use of money.*)
- What is credit? (*A promise of payment at a future time for goods and services now.*)
- What is a budget? (*A plan for managing income, spending and saving during a certain time period.*)
- What is income? (*Payment you earn or receive from different sources.*)
- Why is budgeting important in managing your income and spending? (*Answers will vary, but could include the fact that budgeting helps you track your income and spending, so you know how much money you will have remaining to pay off a debt or to save.*)

ASSESSMENT

1. Distribute Hand-out 2, California Dreaming. Ask students to complete the budget worksheet, following directions, to show they can earn enough to pay off their plane ticket debt.
2. Give students the following scenario: You want to purchase a new skateboard, helmet and pads for a price of \$100. You are trying to decide whether to get the items now by getting a loan from your mom, or to wait until you have enough money saved for the purchase. Write an essay explaining the costs and benefits of each decision. Use the following words in your writing: debt, interest, credit, budget and income.



VISUAL 1 - I.O.U. CARDS

<p>OUR I.O.U.</p> <p>Your group purchased concert tickets for the next “Five Directions” concert. Your debt is \$300.</p>	<p>OUR I.O.U.</p> <p>Your group purchased musical instruments to start a band. Your debt is \$900.</p>
<p>OUR I.O.U.</p> <p>Your group purchased a laptop computer to work on a project. Your debt is \$850.</p>	<p>OUR I.O.U.</p> <p>Your group purchased a “friends” cellphone plan. Your debt is \$500.</p>
<p>OUR I.O.U.</p> <p>Your group purchased the newest video game system. Your debt is \$600.</p>	<p>OUR I.O.U.</p> <p>Your group purchased sports equipment to start your own baseball team. Your debt is \$700.</p>
<p>OUR I.O.U.</p> <p>Your group purchased tickets to an amusement park. Your debt is \$250.</p>	<p>OUR I.O.U.</p> <p>Your group purchased a set of video games to share. Your debt is \$400.</p>



HANDOUT 1 - GET OUTTA DEBT

Group members _____

Choose from the following jobs to earn income and pay off your debt. Each group member's name, job chosen, and amount earned (multiplied by the number of months worked) should be listed under the "Our Income" columns, and the I.O.U. debt item and amount should be listed under the "Our Debt" columns. Add the column totals to see whether your group can pay off the debt, and adjust jobs if necessary. Any additional income left over (A-B) becomes money to save!

JOB CHOICES

Mowing or raking lawns: \$40 a month Weekly babysitting: \$60 a month Garage sale: \$15 a month

Pet care: \$30 a month Delivering newspapers: \$160 a month Food sales at games: \$55 a month

BUDGET WORKSHEET

Our Income		Our Debt	
Name and Job	Amount Earned (A)	Item(s)	Amount Owed (B)
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	Total to Earn:		Total Debt:

Money to Save (A-B): _____



HANDOUT 2 - CALIFORNIA DREAMING

Your friend just invited you to travel to California with his family over spring break! The family will pay for your lodging and entertainment, but your dad will have to loan you \$500 for your plane ticket. Use the budget worksheet below to plan how you will earn money for the next six months to pay off your debt AND have \$100 to spend during your vacation.

JOB CHOICES

- Mowing or raking lawns: \$40 a month Weekly babysitting: \$60 a month Garage sale: \$15 a month
 Pet care: \$30 a month Delivering newspapers: \$160 a month Food sales at games: \$55 a month

BUDGET WORKSHEET

Your Income		Your Debt	
Name and Job	Amount Earned (A)	Item(s)	Amount Owed (B)
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	_____ x _____ months = _____		
	Total to Earn:		Total Debt:

Money to Save (A-B): _____



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CONTENT STANDARDS

National Content Standards in Economics

Standard 2: Decision-Making

- Make effective decisions as consumers, producers, savers, investors, and citizens.

National Financial Literacy Standards

Standard 1: Earning Income

Standard 2: Buying Goods and Services

Standard 4: Using Credit

Common Core State Standards

English and Language Arts: Grades 5-8

- Key Ideas and Details: CCSS.ELA-Literacy RL. 5.1, 6.1
- Craft and Structure: CCSS.ELA-Literacy RL. 5.4, 6.4, 7.4, 8.4
- Comprehension and Collaboration: CCSS.ELA-Literacy SL. 5.1, 6.1, 7.1, 8.1
- Writing: CCSS.ELA-Literacy W. 5.1, 6.1, 7.2, 8.2

