

Smart Money: The World of Financing and Borrowing

Lesson Overview

In this lesson, Olivia will explore the world of finance by learning how borrowing works, what interest is, and how to make smart decisions when "renting" money to buy big-ticket items.

Materials Needed

- Paper and pencils
- A calculator
- Printable "Loan Cards" (or index cards)
- Play money or tokens (optional)
- A whiteboard or large sheet of paper

Learning Objectives

By the end of this lesson, the learner will be able to:

- Define **Financing** and **Interest** in their own words.
- Explain the difference between a "Need" and a "Want" in the context of borrowing.
- Calculate simple interest on a small loan.
- Evaluate whether a financing deal is a "Good Move" or a "Money Trap."

1. Introduction: The \$500,000 Question (Hook)

The Scenario: "Olivia, imagine you found your absolute dream house. It has a pool, a slide from the second floor, and a giant art studio. It costs \$500,000. You check your piggy bank and find exactly \$42.25. Does this mean you can never have the house?"

The Discussion: Introduce the concept that most people don't have all the cash they need for big things (houses, cars, starting a business) all at once. They use **Financing**—the art of borrowing money today to pay for something, and promising to pay it back over time.

2. Body: Content & Practice

Part A: The "I Do" - What is Interest?

Explain that money isn't free to borrow. Think of it like a library book. If you keep a book too long, you might pay a tiny fine. With money, you pay a "rental fee" called **Interest**.

- **Principal:** The original amount you borrowed (The "Big Chunk").
- **Interest:** The extra money you pay the bank for letting you use their money.

- **Term:** How much time you have to pay it back.

Analogy: If I lend you 10 apple slices today, but you have to give me back 11 slices tomorrow, that 1 extra slice is the interest!

Part B: The "We Do" - The Bike Shop Simulation

Let's look at two ways to buy a \$200 mountain bike.

1. **Option 1 (Cash):** You save up for 10 months and pay \$200. Total cost: \$200.
2. **Option 2 (Financing):** You get the bike today! You pay \$22 a month for 10 months.

Guided Task: Let's calculate the cost of Option 2 together. $22 \times 10 = \$220$.

Question: How much was the "Interest" (the cost of getting the bike early)?

Answer: \$20. Is being able to ride the bike all summer worth \$20? (Discuss the pros and cons).

Part C: The "You Do" - The Lemonade Stand Expansion

The Task: Olivia wants to grow her lemonade business. She needs a \$100 high-speed blender to make "Lemon Slushies." She has two loan offers:

- **The "Quick-Fix" Loan:** Borrow \$100, pay back \$10 every week for 12 weeks.
- **The "Patient-Pro" Loan:** Borrow \$100, pay back \$110 in total after one month.

Instructions:

1. Calculate the total cost of the Quick-Fix Loan.
2. Compare it to the Patient-Pro Loan.
3. Decide which one is better and write one sentence explaining why.

3. Conclusion: The Finance Detective

Recap: Review the terms *Principal* and *Interest*. Remind Olivia that financing allows us to do big things, but it always costs more in the long run.

The Takeaway: Ask Olivia: "Before you borrow money, what is the #1 question you should ask yourself?" (Expected answer: "Is the extra cost of interest worth getting the item right now?")

Success Criteria

- Olivia can correctly identify the "Interest" amount in the Lemonade Stand activity.
- Olivia can explain why a bank charges interest.
- Olivia can identify one "Good" reason to finance (e.g., a home or education) and one "Risky" reason (e.g., a toy she could save up for).

Differentiation & Adaptability

- **For More Challenge (Advanced):** Introduce the concept of "Credit Scores"—how being responsible with small loans helps you get bigger ones later. Calculate percentage-based interest (e.g., 5% of \$100).

- **For More Support (Scaffolding):** Use physical tokens or play money to show the "Principal" pile and the "Interest" pile so the cost is visual.
- **Group Setting:** Have students act as "Bankers" and "Borrowers" and negotiate interest rates based on how risky a business idea sounds.

Assessment

- **Formative:** Thumbs up/down during the Bike Shop simulation to see if she understands the cost difference.
- **Summative:** The "Lemonade Stand Expansion" worksheet where she chooses the best loan and justifies her answer.