

Madoff Case: (Dis)Trust and Investments

SUBMITTED BY: WGYP Summer Instructor

SUBJECT(S): Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

In this lesson, students will be introduced to the Madoff Ponzi scheme. They will think about what Bernie Madoff did and how very experienced investors were tricked by him. Then we will return to the rational decision-making process and the four variables used to make investments to consider how investors can protect themselves against risk.

≡ NBEA STANDARD(S):

- Personal Finance, IV. Saving and Investing
- Personal Finance, VIII. Protecting Against Risk

≡ RELATED ARTICLES:

- [“Portfolio Management: Making Decisions about Your Investments”](#)
- [“It’s Tempting, but Is It Ethical?”](#)
- [“Career Insight: Jerrold Fine on What It Takes to Succeed on Wall Street”](#)

Common Core Standard(s):

- Reading Informational Text — RI.9 -10.1.; RI.9 -10.2.
- Speaking and Listening — SL.9 -10.1.

Purpose:

- In this lesson, students will learn about a Ponzi scheme and how investors were tricked by Madoff and others like him.
- They will also revisit the lessons they have done earlier on investment options and think about the risks that investors don't see coming.
- They will write a short creative piece summarizing the case.

Knowledge@Wharton Article: [“The Bernie Madoff Case: Trust take another Blow”](#)

Other Resources/Materials:

For the teacher's reference: [New York Times article](#) on the Madoff Case.

Activity:*Introduction (5 mins)*

Introduce the Bernie Madoff case to the class. The teacher may first need to explain what is a Ponzi scheme.

- In this fraudulent investment operation, returns are paid to investors, not from any actual profit, but a redistribution of funds initially invested by individuals. Short-term returns are usually high and extremely consistent, which is highly unusual and better than what anyone else can guarantee. The scheme is named after Charles Ponzi who used this technique in the 1920s.
- Madoff was a very successful Wall Street financier who promised investors amazing returns on investments. He was so popular and well-respected that he became the SEC chairman and actually worked with government to design financial regulations. His Ponzi scheme was only discovered after the 2008 market crash when investors wanted to pull money out of his company.

Reading (10 mins)

Assign two students to read for Shell and Schweitzer from the Knowledge@Wharton article. Ask the students who are reading it to the class, to do so with some theatrical flair. The story is pretty dramatic and it is a good way to keep it interesting.

Class discussion (10 mins)

Ask the students to talk about the case and answer the following questions:

1. What are the four reasons that enabled Madoff to trick investors?
2. What is a Ponzi scheme?
3. Why is diversification as an investor important?
4. What are second opinions? Explain what Ben Stein did when he learned about Madoff's plan. Why was he so cautious about a plan which was "too good to be true"?
5. What have you learned from this article? How is trust an important part of handling money and working with others?
6. Think about the get-rich-quick or lose-weight-fast plans that are advertised on TV and why one should be wary of such money-making schemes.

Short Writing Assignment (10 mins)

Ask students to pair up and write a short paragraph summarizing the Madoff case, and giving their opinion on it. It doesn't need to be more than 5-6 sentences, but ask them to be creative in their writing. It could be a poem, a short rap or song, or a story.

Performance (5 mins)

After they all finish, ask some of them to get up and perform their poem for the rest of the class.

Tying it All Together:

In this lesson, students learn about the Madoff Ponzi scheme. It is an interesting lesson for a number of reasons. It is so amazing how a man with Madoff's reputation could be so corrupt. The students also get to read an analysis of the scheme in the article, and think about why diversification and caution are two very important factors to be considered by any investor.