

How Debt Works

Use the broad explanation and focused answers after the child checks the reading.

USE AFTER THE SOURCE CHECK

Tick the ideas you can find. Drawings and own words count.

01

The offer and the agreement

What to look for in your child's explanation

- ☐ The \$1,000 price and \$30 payment do not show the full cost or end date.
- ☐ The agreement explains interest, fees, and payment rules.
- ☐ The amount first borrowed can differ from the amount owed now.

THE LEARNER MIGHT WRITE OR DRAW

"The ad shows one payment, not the whole path. The balance later can include unpaid principal plus interest or fees."

WHERE TO CHECK Passage 1, 1.1-1.7

- ☐ Clear ☐ Partly there ☐ Missing ☐ Needs correction

02

One amount, two account structures

What to look for in your child's explanation

- ☐ An installment loan has planned payments and an ending if the plan is followed.
- ☐ A credit card can carry debt from one month to the next.
- ☐ These two paths differ even before someone buys anything else.

THE LEARNER MIGHT WRITE OR DRAW

"Both start at \$1,000 without new buying. One has a planned ending. The card balance can continue, and later purchases can change it again."

WHERE TO CHECK Passage 2, 2.1-2.7

- ☐ Clear ☐ Partly there ☐ Missing ☐ Needs correction

03

Time, the payment, and what remains

What to look for in your child's explanation

- ☐ In the example, interest adds about \$19.73 to \$1,000 over 30 days.
- ☐ Paying \$30 lowers the balance to \$989.73, just \$10.27 below the start.
- ☐ An on-time minimum payment can leave debt unpaid.

THE LEARNER MIGHT WRITE OR DRAW

"Interest raised the balance before the payment. The \$30 still lowered what was owed by \$30, but the ending amount was only \$10.27 below where it started."

WHERE TO CHECK Passage 3, 3.1-3.7; Passage 4, 4.1-4.7

- ☐ Clear ☐ Partly there ☐ Missing ☐ Needs correction

Answers to the three questions

After your child's source check, use the key for each question they answered. Own words count.

QUESTION 1

How can two people each owe \$1,000, but have debts that behave differently over time?

A clear answer includes

The agreement and account type matter. An installment loan begins with one amount and a planned schedule and ending if followed. A revolving account has a credit limit and can carry a balance between cycles; interest and later borrowing can raise it. The structural difference exists even before new purchases.

WHERE TO CHECK Passage 1, 1.1-1.7; Passage 2, 2.1-2.7

QUESTION 2

Why can an APR printed as a yearly rate add cost during a single month, and why can an earlier payment matter when interest is accruing?

A clear answer includes

APR is annualized, but an agreement may calculate interest daily or over other shorter periods. In the simplified example, 24% divided by 365 is about 0.06575% daily, adding about \$0.66 for one day on \$1,000 and about \$19.73 across 30 unchanged days. An earlier payment can reduce the number of days using the larger balance. Real methods vary.

WHERE TO CHECK Passage 3, 3.1-3.7

QUESTION 3

Why can paying the minimum on a revolving credit-card account leave debt in place for a long time, even when the payment is on time?

A clear answer includes

The minimum is the required floor, not the payoff amount. It reduces the current balance when applied, but a remaining balance can continue into another cycle and may accrue interest. New purchases can extend or change the path. Paying on time can keep the account current without ending the debt.

WHERE TO CHECK Passage 4, 4.1-4.7