10-12 – Extension Activity for *Debt Decisions*

Specific Outcome(s)

- Career and Life Management
  - R8. Evaluate the advantages and disadvantages of credit
    - Examine the costs of using credit, the dangers of overextended buying and the impact of credit ratings
- Mathematics 10-3
  - N5. Demonstrate an understanding of credit options, including
    - Credit cards
    - Loans

At the end of this extension activity, students will be able to calculate debt ratios and explain how knowing one's debt ratio helps them to use credit wisely.

Materials Needed

- Calculators

Materials Provided

- Calculating Debt Ratios handout

Logistics

- Photocopy the Calculating Debt Ratios handout 😊
  - Print enough copies for each student.

Procedure

- Remind students of the definitions of credit and debt.
- Explain what a debt ratio is: "A debt ratio is the ratio of your income to your debts. It's good to keep your consumer debt payments (this excludes mortgages) below 20-28% of your gross monthly income."
- Show students how to calculate a debt ratio.
  - "Alex has $635 in monthly student loan payments, $423 in monthly auto loan payments, and $5,321 in monthly gross income."
    - Step 1: Calculate monthly payments. $635 + $423 = $1,058
    - Step 2: Determine ratio. $1,058 ÷ $5,321 × 100 = 20% (rounded)
- Have students practice calculating debt ratios using the provided handout.
  - Circulate and help students as needed.
  - Review the answers with them when most of them are done.
- When ready, ask the following review questions to solidify students' learning:
  - "Which people have a high debt ratio? On what should they focus?"
  - "How does knowing your debt ratio contribute to using credit wisely?"

Calculating Debt Ratios

Using the following tables, calculate each person's debt ratio. Show all work.

Consumer Debt Payments	Monthly Amount
Monthly Auto Loan Payment	$1,380.00
Monthly Student Loan Payments	$1,200.83
Average Monthly Credit Card Payment	$123.44
Monthly Gross Income	
$5,632.00	

What is this person's debt ratio?

Consumer Debt Payments	Monthly Amount
Average Monthly Credit Card Payment	$452.63
Monthly Auto Loan Payment	$644.36
Monthly Gross Income	
$2,284.00	

What is this person's debt ratio?

Consumer Debt Payments	Monthly Amount
Average Monthly Credit Card Payment	$253.87
Monthly Gross Income	
$874.00	

What is this person's debt ratio?

Calculating Debt Ratios

Using the following tables, calculate each person's debt ratio. Show all work.

Consumer Debt Payments	Monthly Amount
Monthly Auto Loan Payment	$1,380.00
Monthly Student Loan Payments	$1,200.83
Average Monthly Credit Card Payment	$123.44
Monthly Gross Income	
$5,632.00	

What is this person's debt ratio?
$1,380.00 + $1,200.83 + $123.44 = $2,704.27
$2,704.27 ÷ $5,632.00 x 100 = 48%

Consumer Debt Payments	Monthly Amount
Average Monthly Credit Card Payment	$452.63
Monthly Auto Loan Payment	$644.36
Monthly Gross Income	
$4,284.00	

What is this person's debt ratio?
$452.63 + $644.36 = $1,096.99
$1,096.99 ÷ $4,284.00 x 100 = 26%

Consumer Debt Payments	Monthly Amount
Average Monthly Credit Card Payment	$253.87
Monthly Gross Income	
$874.00	

What is this person's debt ratio?
$253.87 ÷ $874.00 x 100 = 29%