

# Ponzi Scheme Demonstration

## ∞ Classroom Activity ∞

In some scams, investors are lured with the promise of high returns, and, at first, they may get those returns. But if they've been hooked by a Ponzi scheme, their money may not really be invested at all.

**Ponzi Scheme** This type of pyramid scheme is named after a 1920s con artist – although the most famous modern example is the Bernie Madoff case. In a Ponzi scheme, “dividends” or “interest” that is paid out is actually the money paid in by later investors. As word-of-mouth advertising is spread by the first investors (who appear to have profited), more people join in. But since no real investment has been made, it can't last long. Eventually the con artist takes as much money as possible and disappears.

**Supplies:** Print and cut apart “classroom dollars” or purchase play money bills.

**Instructions:** Distribute 5 bills per person to at least 9 people (9 would make 3 groups of 3). The participating students are instructed to play along and “believe” in the investment opportunity. The teacher poses as the con artist in this scenario. Explain the “investment” to groups of 3 (or more) people at a time. Include the suggested red flag statements in your “sales pitch” to each group.

**Group 1** – The pitch: “Get in on the ground floor” ... “Hot new investment” ... “You'll want to be the first to buy”

- Con artist “pockets” all money (buys a yacht).

**Group 2** – The pitch: “There's still time to get in on this deal if you hurry” ... “You don't want to miss out”

- Con artist redistributes 1 bill to each person in the first group as “dividends” and “pockets” the rest (buys a car).

**Group 3** – The pitch: Use testimonials from the first group. “These guys are making money. Don't you want to make money too?”

- Con artist redistributes 1 bill to each person in the first AND second groups as “dividends” and “pockets” the rest (goes partying/gambling).

**Etc.**

Eventually the whole thing gets too big to keep paying out and it collapses. Unfortunately, once the bad guy is caught, there is no money left to give back to investors because it has already been spent.

**Don't let your students be future victims!**

**Teach them about fraud, so they can recognize it and avoid it!**

*This classroom activity is brought to you by the Kentucky Department of Financial Institutions.*

*Find additional resources online at <http://kfi.ky.gov/public/Pages/teacher.aspx>.*



