

9.2.3

Lesson 7

Introduction

In this lesson, students will be introduced through an informational video to Bernard Madoff and the concept of a Ponzi scheme. Students will also begin reading the second informational text in this unit, “How Bernard Madoff Did It,” a book review that explains the nature of Madoff’s crime. Students must master the understandings scaffolded in this lesson to fully engage with the texts in the remaining lessons of this unit. Students will participate in rich discussion to support comprehension of the ideas and concepts introduced in this video and the text.

Students will first watch the Ponzi scheme video, using guiding questions to support their thinking. Students will have an opportunity to discuss their questions with the class. Students will then listen to a masterful reading of “How Bernard Madoff Did It” as well as answer questions about paragraph 1 (from “Ever since the Madoff Scandal broke” through “pleasure in the financial travails of the rich and famous”). For the lesson assessment, students will complete a Quick Write on the central idea that emerges in paragraph 1. For homework students will write about how a Ponzi scheme works and what makes it a crime. Students will also continue with their AIR homework.

Standards

Assessed Standard(s)	
RI.9-10.2	Determine a central idea of a text and analyze its development over the course of the text, including how it emerges and is shaped and refined by specific details; provide an objective summary of the text.
Addressed Standard(s)	
RI.9-10.7	Analyze various accounts of a subject told in different mediums (e.g., a person’s life story in both print and multimedia), determining which details are emphasized in each account.
W.9-10.9.b	Draw evidence from literary or informational texts to support analysis, reflection, and research. b. Apply <i>grades 9–10 Reading standards</i> to literary nonfiction (e.g., “Delineate and evaluate the argument and specific claims in a text, assessing whether the reasoning is valid and the evidence is relevant and sufficient; identify false statements and

	fallacious reasoning”).
SL.9-10.1	Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher led) with diverse partners on <i>grades 9–10 topics, texts, and issues</i> , building on others’ ideas and expressing their own clearly and persuasively.
L.9-10.4.a	Determine or clarify the meaning of unknown and multiple-meaning words and phrases based on <i>grades 9–10 reading and content</i> , choosing flexibly from a range of strategies. a. Use context (e.g., the overall meaning of a sentence, paragraph, or text; a word’s position or function in a sentence) as a clue to the meaning of a word or phrase.

Assessment

Assessment(s)
<p>The learning in this lesson will be captured through a Quick Write at the end of the lesson. Students will answer the following prompt based on the close reading (citing text evidence and analyzing key words and phrases) completed in the lesson.</p> <ul style="list-style-type: none"> Determine the central idea in the first paragraph of “How Bernard Madoff Did It.” How does this idea emerge and what details shape its development?
High Performance Response(s)
<p>A High Performance Response may include the following:</p> <ul style="list-style-type: none"> A central idea in the first paragraph of “How Bernard Madoff Did It” is the public’s fascination with the Madoff scandal. Ahamed points out that a reason we are so interested in this scandal is the enjoyment we get from watching the “travails of the rich and famous.” Those who lost money were not just “impersonal institutions” but real people.

Vocabulary

Vocabulary to provide directly (will not include extended instruction)
<ul style="list-style-type: none"> stock market (n.) – a place where shares of a company are bought and sold hedge fund (n.) – an investment fund that invests large amounts of money using risky methods fluctuation (n.) – irregular rising and falling in number or amount voyeuristic (adj.) – having the quality of being an obsessive observer of sordid or sensational subjects

Vocabulary to teach (may include direct word work and/or questions)
<ul style="list-style-type: none"> • morbidly (adv.) – unhealthily; unwholesomely gloomy or extreme • travails (n.) – pains and suffering because of hardships

Lesson Agenda/Overview

Student-Facing Agenda	% of Lesson
Standards & Text <ul style="list-style-type: none"> • Standards: RI.9-10.2, RI.9-10.7, W.9-10.9.b, SL.9-10.1, L.9-10.4.a • Text: Video “\$50bn Ponzi scheme – How Madoff Did It” (http://youtu.be/52nYNE9DYYQ) “How Bernard Madoff Did It,” paragraph 1 	
Learning Sequence <ol style="list-style-type: none"> 1. Introduction to Lesson Agenda 2. Homework Accountability 3. Video and Discussion 4. Masterful Reading 5. Paragraph 1 Reading and Discussion 6. Quick Write 7. Closing 	<ol style="list-style-type: none"> 1. 5% 2. 10% 3. 25% 4. 10% 5. 30% 6. 15% 7. 5%

Materials

- Projector or screen for watching the YouTube video
- Copies of the transcript of the video (Instructional Aid) for each student
- Student copies of the Speaking and Listening Rubric and Checklist (refer to 9.2.1 Lesson 12)

Learning Sequence

How to Use the Learning Sequence	
Symbol	Type of Text & Interpretation of the Symbol
10%	Percentage indicates the percentage of lesson time each activity should take.
	Plain text (no symbol) indicates teacher action.
	Bold text (no symbol) indicates questions for the teacher to ask students.
	<i>Italicized text (no symbol) indicates a vocabulary word.</i>
▶	Indicates student action(s).

	Indicates possible student response(s) to teacher questions.
	Indicates instructional notes for the teacher.

Activity 1: Introduction to Lesson Agenda

5%

Begin by introducing the agenda and the assessed standard for this lesson: RI.9-10.2. Explain to students that they will continue to work with RI.9-10.2 to support understanding and comprehension of a Ponzi scheme. Inform students that in this lesson they will be watching a video as well as beginning to read the next informational text in this unit, a book review that discusses Madoff's crime.

- ▶ Students listen to the agenda.

Activity 2: Homework Accountability

10%

Instruct students to talk in pairs about how they can apply their focus standard to their text. Lead a brief share out on the previous lesson's AIR homework assignment. Select several student pairs to explain how they applied their focus standard to their AIR text.

- ▶ Students (or student pairs) discuss and share how they applied their focus standard to their AIR text from the previous lesson's homework.

Activity 3: Video and Discussion

25%

Explain to students that they will be watching a text-based video, "\$50bn Ponzi scheme – How Madoff Did It," that explains that nature of Bernard Madoff's crime and outlines the concept of a Ponzi scheme. Inform students that they will watch the video and pause in the middle to answer some comprehension questions before finishing the viewing. Ask students to consider these focus questions while viewing the video: Who is Bernard Madoff? What did he do?

- ① This video will help to scaffold students' understandings of the next set of texts for this unit. If necessary consider re-watching the video to assist with student comprehension of a Ponzi scheme.
- ① As this video only has music underscoring the text it would be advisable to mute the sound.
 - ▶ Students listen.

Play the first half of the video for students (<http://youtu.be/52nYNE9DYYQ>)

- ① The video is 6 minutes and 25 seconds long.

Pause the video at the 3:44 minute mark. Instruct students to discuss their responses to the following questions in pairs.

A *hedge fund* is an investment fund that invests large amounts of money using risky methods. What is the difference between a *hedge fund* and Madoff’s “Collar Method”?

- There was no risk involved with the “Collar Method.” Investors got a 10% return every year.

Why would the scheme the video outlines not make a profit?

- There would be no profit because you aren’t using the money to buy anything; you’re just giving it back.

Start the video again at 3:44 and play until the end. Ask students to discuss in pairs:

What is the “classic trick” Madoff used to make his payments?

- A Ponzi scheme is the classic trick Madoff used to make his payments.

What is the source of “profit” in a Ponzi scheme?

- Other investors’ money is the source of the profit.

What usually happens to a Ponzi scheme?

- Ponzi schemes usually collapse after one year.

Activity 4: Masterful Reading

10%

Introduce the Quick Write assessment (Determine the central idea in the first paragraph of “How Bernard Madoff Did It.” How does this idea emerge and what details shape its development?). Explain to students that this is the lesson assessment and the focus for today’s reading.

- Students read the assessment and listen.

[Display the Quick Write assessment prompt for students to see.](#)

Distribute copies of the text “How Bernard Madoff Did It,” a book review by Liaquat Ahamed. Have students listen to a masterful reading of the first paragraph (from “Ever since the Madoff Scandal broke” through “pleasure in the financial *travails* of the rich and famous”).

Explain to students that a book review, a type of informational text, is meant to give information about a book and its topic, as well as an opinion about the quality and scope of the book. Ask students to identify the author of the review, Liaquat Ahamed. Explain that Ahamed will be using quotes and

information from the book he is reviewing: *The Wizard of Lies* by Diana Henriques. Students will be reading an excerpt from this book later in the unit.

- ▶ Students follow along, reading silently.

Activity 5: Paragraph 1 Reading and Discussion

30%

Instruct students to reread paragraph 1 (from “Ever since the Madoff Scandal broke” through “pleasure in the financial *travails* of the rich and famous”) and discuss the following questions in pairs.

- ① Consider pausing and reviewing the Speaking and Listening Rubric and Checklist to reinforce student understanding of speaking and listening expectations.

According to Ahamed what makes the Madoff scandal different from others?

- 🗨 Those affected were “real people” not “impersonal institutions.”

What does Ahamed mean by “others found a certain *voyeuristic* pleasure in the financial *travails* of the rich and famous”?

- 🗨 Ahamed is saying that the public enjoys watching celebrities go through hard times.
- ① Offer students a definition of *voyeuristic* as having the quality of being an obsessive observer of sordid or sensational subjects. The term for taking pleasure in other people’s suffering is called *schadenfreude*. *Schadenfreude* is a German term that literally means “harm-joy.” This is a term that applies to the Madoff scandal as well as *Oedipus the King* and is an important idea that connects the texts in this module.
- ① Teachers can also choose to pause here and write or project a definition of the word, *schadenfreude*. As an optional extension activity, teachers can make additional connections to *schadenfreude* by reading and asking questions about other texts from this module or other texts about Bernard Madoff, easily found through an Internet search.

What might *travails* mean in this context?

- 🗨 Pains and suffering because of hardships, something bad that’s happened because it’s a financial scandal.

Why was the public “*morbidly* fascinated” by the Madoff scandal?

- 🗨 Ahamed states that because there were “real people” involved, the public was either interested because some could “imagine ourselves among the victims” or because we like to see celebrities in trouble.

- ① Consider drawing students' attention to their application of standard L.9-10.4.a in the previous two questions, as students determine word meanings through the use of context clues.
- ① Offer students a definition of *morbidly* if they cannot determine the meaning from context or by other means.

Instruct students to return to the text to annotate for evidence of a developing a central idea. Students should write the code CI in the margin. Remind students that as they annotate for central idea, they are beginning to identify textual evidence that may be used in the lesson assessment as well as the End-of-Unit Assessment, which address the development of central ideas in the text. This focused annotation supports students' engagement with W.9-10.9.b, as they draw evidence from the text to use in their writing.

Activity 6: Quick Write

15%

Instruct students to respond to the following writing prompt:

Determine the central idea in the first paragraph of “How Bernard Madoff Did It.” How does this idea emerge and what details shape its development?

Remind students to use the Short Response Checklist and Rubric to guide their written responses.

- ① Display the prompt for students to see, or provide the prompt in hard copy.
 - ▶ Students independently answer the prompt using evidence from the text.
 - 🗨 See the High Performance Response at the beginning of the lesson.

Activity 7: Closing

5%

Display and distribute the homework assignment. For homework, instruct students to answer the following prompt: In two to three sentences describe how a Ponzi scheme works. What makes a Ponzi scheme a crime? Remind students to use the Short Response Checklist and Rubric to guide their written responses.

Also, instruct students to continue their Accountable Independent Reading through the lens of their focus standard and prepare for a 3–5 minute discussion of their text based on that standard.

- ① Consider providing students with a link to the “\$50bn Ponzi scheme – How Madoff Did It” YouTube video to help support their understanding as well as inform their homework responses.
 - ▶ Students follow along.

Homework

In two to three sentences describe how a Ponzi scheme works. What makes a Ponzi scheme a crime?

Continue to read your Accountable Independent Reading text through the lens of a focus standard of your choice and prepare for a 3–5 minute discussion of your text based on that standard.

Madoff Video Transcript (Instructional Aid)

Segment 1 (0:00)

Bernard Madoff managed to make \$50 Billion of investors' money from around the world and make it vanish into thin air.

Lipstick Building, NY: The scam took place here, in New York.

But Madoff wasn't always so affluent.

Far Rockaway, Queens: His career began as a lifeguard in 1960.

Here he made \$5,000 (\$35,000 today), which he used to start trading stocks.

Miami Beach: Madoff made his way to richer areas... to attract richer clients with more cash.

The Pink Sheets:

Madoff's new business dealt with the National Quotation Bureau.

This business was no competition to those trading on the New York Stock Exchange.

To beat his competition Madoff made use of computer technology.

This technology eventually became the foundation of the modern NASDAQ Stock Exchange.

(1:01)

Segment 2 (1:02)

Investment: Madoff invested money in stocks.

Profits: When the stock price increased he made a profit.

Losses: But when the stock prices fell he lost money.

Madoff wasn't making the big money he wanted.

Palm Beach: So Madoff chose rich Country Clubs to find richer investors.

He became part of these clubs' close community, and befriended them to gain their trust.

Clients fell for his charisma and charm.

...and handed over large sums of money, on Madoff's promise of 10% profit every year.

Hedge Fund: this was the beginning of Madoff's *hedge fund*.

10% Consistently: Madoff gave clients 10% back on their investment every year, without fail.

This was incredibly attractive, and impressive, given the instability of the *stock market*.

Collar: Madoff said he achieved this consistency using a "collar" method to limit gains and losses.

Rights to Buy and Sell:

By selling and purchasing the rights to buy and sell stocks at a fixed price

...the gain and loss due to fluctuations in the actual price of the stock can be constrained.

But This Didn't Add Up:

Even using this collar method there was no way Madoff could achieve the consistent 10% gains.

(2:23)

Segment 3 (2:24)

Secrecy:

Madoff's *Hedge Fund* was shrouded in secrecy.

The 17th Floor:

Operating from the 17th floor of the Lipstick Building, only a dozen employees were involved.

The floor was isolated from the rest of the company.

And the computer producing the statements was an old IBM in the corner.

It wasn't connected to the rest of the company network.

And to avoid leaving a digital footprint all the client's statements were printed on paper only.

So What Was Madoff Doing?

Well there'd be only one way of providing consistent 10% returns.

Imagine if a client gave Madoff \$1,000,000.

Madoff could now just give back \$100,000

But after 10 years, he'd have given the investor back all his money.
And in the 11th year, he has no more money to make the yearly payment.

Withdrawals:

Worst of all, when the client asks for his \$1,000,000 back (which he can do at any time)...
Madoff would have to admit that it no longer exists...
As he's used it up to make the client's own yearly payments!

The Scheme Would Make No Profit:

...despite lasting for 10 years undiscovered.

(3:44)

Segment 4 (3:45)

So Madoff used a classic trick...

To be able to continue to make the payments year after year.

...Madoff would require further income from alternative sources that would cover this expense.

Question: Where might this income come from?

Answer: Another Investor.

The cash coming in from another investor...

Could be used to make the payments to the first investor.

Question: But how do you make the yearly payments to the second investor?

Answer: Yet another investor.

And to pay him a further one.

In this scheme, the cash from each new investor is used to pay back the older investor.

100% of everyone's money is being used to pay everyone's 10% yearly "return."

Each investor's 10% "gain" is another investor's 10% loss. All the money is slowly burnt up.

Ponzi Scheme:

This is known as a Ponzi Scheme.

But such schemes usually collapse after one year.

(4:50)

Segment 5 (4:51)

So how did Madoff keep his Ponzi Scheme going for 20 years?

To keep a Ponzi Scheme going you need...

Avoid Withdrawals: Avoid investors who are going to want their money back soon.

Continual Investment: lots of investors willing to keep investing.

Don't Get Caught: Don't let any financial authorities work out your game.

Madoff achieved the latter by using a small, unknown company to do his auditing.

Friehling and Horowitz did not need to register as auditors as this law was not present in New York.

Madoff's secrecy also prevented detection.

Indeed, Madoff refused clients who asked too many questions.

"Velvet Rope": This built up a sense of "elite" that attracted investors to Madoff's fund.

Communities: Combined with his focus on clubs and communities, this ensured a steady stream of new investors.

Charities: Last, Madoff focused on investment from charities, such as that of Steven Spielberg. Due to the financial structure of a charity, they very rarely needed to make withdrawals.

The Credit Crunch: Then came 2009, the global economic downturn, and the beginning of the end for Madoff.

Huge numbers of Madoff's investors needed to make withdrawals due to the economic climate.

But of course, their money wasn't there.

\$50 Billion had been vaporized.

...and Madoff once chairman of the NASDAQ...was finished.

(6:25)