

PFL Academy

Teacher Guide: Chapter 60 — Understanding Financial Contracts

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Sample Contracts	Basic reading comprehension; real-world contract examples helpful

LESSON FLOW

5 min THE CHALLENGE

- Ask: "Who has ever clicked 'I agree' without reading the terms?" (Most hands go up.)
- Share the \$3,800 lease penalty and \$1,150 phone cancellation stories.
- Key message: "I didn't read it" is not a legal defense. Courts enforce what you sign.

10 min CORE CONCEPTS

- Introduce the five essential elements: Offer, Acceptance, Consideration, Capacity, Legality.
- Use simple examples: "I offer to mow your lawn for \$30. You accept. We both give something."
- Explain capacity—why minors can void contracts (important for students!).
- Preview common red flags: auto-renewal, arbitration, unilateral modification.

25-30 min APPLY IT

- Part A (12 min):** Contract elements identification. Have students find evidence of each element.
- Part B (15 min):** Red flag identification. Have students rate clauses and calculate worst-case costs.
- Part C (15 min):** Contract comparison. Calculate true costs—reveal that "free" isn't free.

10 min CHECK YOUR UNDERSTANDING

- Q2 (arbitration) is critical—students should understand they're giving up court access.
- Q4 (minor's capacity) directly affects students—contracts they sign may be voidable.
- Q5 (pressure tactics) teaches them to never sign under pressure.

DIFFERENTIATION

Support

- Provide a "Contract Elements Checklist" students can use.
- Pre-highlight key clauses in the contract excerpts.
- Work through gym membership excerpt as a class example.
- Simplify calculations—pre-fill some numbers.

Extension

- Have students bring in real contracts they've signed to analyze.
- Research recent class-action lawsuits over contract terms.
- Draft a fair contract for a simple transaction (tutoring services).

- Compare contracts from competitors (two gym memberships, two car loans).

ANSWER KEY

Part A: Contract Elements Identification

Gym Membership:

- **Offer:** Y — FitLife offers gym access for \$49.95/month
- **Acceptance:** Y — "I, the undersigned member, agree"
- **Consideration:** Y — Member pays \$49.95/month; Gym provides access
- **Capacity:** Y — "Member must be at least 18 years of age"
- **Legality:** Y — Gym membership is a legal purpose

Valid contract? Yes—all five elements are present.

Car Sale:

- **Offer:** Y — Offer to sell Honda Civic for \$12,000
- **Acceptance:** Y — "Mike promises to pay"
- **Consideration:** Y — Car for \$12,000
- **Capacity:** Not explicitly stated (implied adults)
- **Legality:** Y — Legal sale

Missing: No signatures, no VIN/description of vehicle, no warranty terms, no title transfer details, no dispute resolution.

Part B: Red Flag Identification

Clause 1 (Auto-Renewal): Rating 3-4. Problems: Requires 60-day advance notice, renewal at "then-current rate" means price can increase, easy to forget and be locked in another year.

Clause 2 (Arbitration): Rating 4-5. Rights given up: Can't sue in court, can't join class actions, arbitration often favors companies, limited discovery rights.

Clause 3 (Unilateral Modification): Rating 4-5. Problem: Company can change any term at any time; your only "choice" is to stop using service (which may have exit costs).

Clause 4 (Early Termination): Rating 4. Calculation: $\$1,200 \times 2 = \$2,400 + \$1,200$ deposit = \$3,600 total to exit early. Plus 60 days' notice means additional rent.

Part C: Contract Comparison

24-Month Cost (Full Term) :

$$\begin{aligned} \text{Plan A: } & \$80 \times 24 = \$1,920 \text{ (phone "included")} \\ \text{Plan B: } & \$55 \times 24 = \$1,320 + \$400 \text{ phone} = \$1,720 \\ \text{Plan C: } & \$70 \times 24 = \$1,680 + (\$600 - \$200) = \$2,080 \end{aligned}$$

Cheapest over 24 months: Plan B (\$1,720)

Cost if Leave After 10 Months:

$$\begin{aligned} \text{Plan A: } & \$80 \times 10 = \$800 + \$350 \text{ ETF} + \sim \$554 \text{ phone balance} = \$1,704 \\ \text{Plan B: } & \$55 \times 10 = \$550 + \$400 \text{ phone} = \$950 \\ \text{Plan C: } & \$70 \times 10 = \$700 + \$150 \text{ ETF} + \$400 \text{ phone} = \$1,250 \end{aligned}$$

Cheapest if leaving early: Plan B (\$950)

Key teaching point: Plan B wins in BOTH scenarios! The "free" phone in Plan A costs more over time AND creates huge exit barriers. Flexibility has real value.

Check Your Understanding

1. B (Notarization). Most contracts don't require notarization—only specific types like real estate deeds do.
2. B (Requires disputes to be settled privately, not in court). Arbitration removes your access to the court system.
3. B (One party can change terms without the other's consent). Typically the company can change prices, features, or terms at will.
4. B (Voidable by the minor). Minors can typically void contracts they sign; they lack full capacity.
5. Never sign under pressure. Ask for time (24-48 hours minimum) to read the entire lease. If the landlord won't wait, that's a red flag. Any legitimate offer will allow reasonable review time. Read every page, calculate total costs, and identify termination conditions before signing.

COMMON MISCONCEPTIONS

Misconception	Clarification
"I didn't read it, so I'm not bound by it."	Wrong. Your signature indicates acceptance. Courts assume you read what you signed. Ignorance of terms is not a defense.
"Contracts must be in writing to be enforceable."	Many contracts are enforceable verbally. However, certain contracts (real estate, agreements over \$500, agreements lasting more than one year) require writing under the Statute of Frauds.
"Standard contract terms aren't negotiable."	Many terms ARE negotiable, especially in employment, leases, and major purchases. The worst they can say is no. Always ask about unfavorable terms.
"If a contract is unfair, courts will void it."	Courts rarely void contracts for being "unfair" to one party. They'll void for fraud, duress, or illegality—but a bad deal you agreed to is usually enforceable.