



Lesson Plan: "Reputation and Credit: The Weight of Trust in Financial Markets"

Objective:

Students will explore the role of reputation and underlying creditworthiness in securing credit. They will analyze how these factors influence borrowing costs, availability, and the broader financial implications for individuals, corporations, and governments.

Materials Needed:

- [Game of Thrones clip or summary about Tyrion Lannister's reputation and the Lannister family legacy of "always paying their debts."](#)
- Handouts defining credit, reputation, and underlying creditworthiness.
- Access to bond yield data for various ratings (AAA, BBB, junk).
- Examples of real-world credit scenarios, such as credit scores, sovereign debt ratings, and corporate bonds.

Lesson Steps:

1. Introduction (10 minutes):

- Define **credit**: The ability to borrow money or access goods/services with the agreement to pay later.
- Highlight the importance of **reputation** in securing credit:
 - Trustworthiness can reduce perceived risk, leading to lower borrowing costs.
 - Damaged reputations increase risk for lenders and borrowing costs for borrowers.
- Discuss **underlying creditworthiness**:
 - The ability to repay based on financial health, income, or assets.
 - Creditworthiness supports reputation; a strong financial foundation builds trust.
- Provide real-world examples: Personal credit scores, corporate bond ratings, and sovereign debt.

2. Viewing Clip (5 minutes):

- [Show or summarize the *Game of Thrones* scene where Tyrion Lannister reflects on the Lannister family's reputation for paying debts.](#)
- Discuss how the family's reputation aligns with its underlying resources (e.g., gold mines, alliances), making them a trusted entity for loans and partnerships.

3. Group Discussion (15 minutes):

- Divide students into small groups to discuss:
 - How does the Lannister family's reputation impact their ability to secure loans or alliances?
 - How does underlying creditworthiness (e.g., gold reserves) support their reputation?
 - What happens when a borrower's reputation exceeds their actual ability to repay?
 - How do these concepts translate to modern financial systems, such as personal loans or sovereign bonds?
 - Tyrion could walk out without paying Mord the gold. Yet he pays him anyway. Why?
 - Discuss how this action reinforces Tyrion's reputation and reflects the importance of maintaining trustworthiness, even in situations where immediate consequences might be avoidable.

4. Concept Application (20 minutes):

- **Case Study Analysis:**
 - Provide examples of reputation and credit in action:
 - Personal credit (e.g., how credit scores affect interest rates).
 - Sovereign debt ratings (e.g., how Greece's debt crisis reflected reputational and credit issues).
 - Corporate bonds (e.g., Apple issuing low-yield bonds due to strong reputation and financial health).
 - Students analyze:
 - How reputation and creditworthiness interact.
 - The consequences of misalignment between reputation and ability to repay.
 - What mechanisms (e.g., audits, collateral) help ensure trustworthiness.

5. Wrap-Up and Reflection (10 minutes):

- Summarize the role of reputation and creditworthiness in securing credit:
 - A strong reputation and solid financial foundation lower risk and borrowing costs.

- Disparities between reputation and creditworthiness can lead to financial instability or crises.
- Pose a reflective question: How can individuals, corporations, or nations build and maintain both reputation and creditworthiness in the long term?

6. Activity or Homework (30 minutes):

- **Bond Ratings and Yield Research Exercise:**
 - Introduce students to bond ratings from Moody's, Standard & Poor's, and Fitch, explaining how they reflect creditworthiness and influence yields.
 - Assign students to research current bond yields for different ratings (e.g., AAA, BBB, junk status) using online resources.
 - Guiding questions:
 - What are the current yields for 10-year AAA-rated, BBB-rated, and junk-rated corporate bonds?
 - How do yields differ across ratings, and what does this reflect about perceived risk?
 - How would a mismatch between reputation and creditworthiness impact these yields?
 - Facilitate a discussion on how bond ratings, reputation, and creditworthiness are interconnected in financial markets.
 - Congress often plays a game of chicken related to funding the government. On several occasions, the federal government has come close to defaulting on its debt. Drawing on the data gathered above, explain why even balanced-budget advocates in Congress may eventually vote in favor of extending the government's credit limit in order to avoid default.