Continuous assesement task 2

- ***Complete ex. 1a + 1b + 1c***
- ***Summarise the text in 50-100 words.***

1 READING

a Read the article about Ponzi schemes quickly and match the years to the people.

2009	Charles Ponzi
2008	Early Ponzi schemers
1920s	Lou Pearlman
1880s	Bernard Madoff

b Read the text again and complete it with the missing sentences. There is one extra sentence you do not need to use.

A He continued to happily take money from excited new investors on a daily basis, many of whom gave him their life savings.

B If you don't believe him, just ask your friends.

C He was able to convince them because he was a highly respected and well-established financial expert.

D Among the fake companies he created was an airline, which existed solely on paper.

E The whole thing collapsed and the authorities caught him.

F However, the scheme doesn't work for long because of the constant need to find new investors.

c Look at the highlighted words and phrases in the text and try to work out their meaning. Then match them to definitions 1–7.

1 can be relied on to be good, honest and responsible ________________

2 coming in great numbers ________________

3 pay for ________________

4 collapses, stops working ________________

5 a voucher which can be exchanged for cash ________________

6 another word for an American dollar ________________

7 allowed and acceptable according to the law ________________

Ponzi schemes

Want to know an easy route onto the world's rich list? You may think it's an impossible dream, but as Charles Ponzi reveals, all you really need is a persuasive smile and the ability to lie very, very well.

The man behind the name

Charles Ponzi was an Italian immigrant living in the United States who cheated countless innocent people out of money in the 1920s. At that time, when a person wanted to send a letter to another country, he or she (if they were feeling generous) could also send the recipient an international reply coupon. The coupon could then be used to pay for the postage of the reply. Ponzi's idea was to buy cheap reply coupons in another country and sell them in the United States, where they were worth more. He then planned to share the profits with his investors. However, transporting and paying for the coupons caused delays and incurred extra costs, which meant he couldn't pay back his investors as quickly as he had promised. But he didn't tell them that. [1]____ Ponzi paid the early investors their profit with the new money that was pouring in, and kept some of it for himself. At the height of his success, he was buying and selling around 160 million reply coupons, despite only 27,000 existing worldwide. When people realised this, it was all over. [2]____

How does it work?

The Ponzi scheme is based on a simple principle revolving around paying old investors with money that comes in from new investors. What exactly they invest in doesn't matter. With the money from the first investors you rent a fancy office and buy a new car, which helps you to attract new investors. [3]____. One person can only do so much, and sooner or later the scheme flops because there aren't enough new investors to pay all of the old ones.

Other big schemers

Examples of the Ponzi scheme date back as far as the 1880s, and are still happening now. One of the longest-running operations was headed by Lou Pearlman, former manager of the famous American boy bands Backstreet Boys and N*Sync. To fund promotional activity for his band roster, he convinced businesspeople to invest in other non-existent side projects. [4]____ Pearlman was eventually convicted of cheating investors of over $300 million and, in 2008, was sentenced to 25 years imprisonment.

But that was nothing compared to Bernard Madoff's $65 billion Ponzi scheme. In 2009 Madoff was sentenced to 150 years in prison after having cheated billionaires, celebrities, and even banks and charities. [5]____ He was also helped by the fact that he was running a legitimate business at the same time. He didn't promise ridiculously high returns, and he always gave his investors their money when they asked for it. Madoff's business propositions seemed perfectly trustworthy, but a lot of people lost all their money.

So for Charles Ponzi, Lou Pearlman, Bernard Madoff, and countless other Ponzi schemers, their lies eventually caught up with them. Their riches were only temporary and the price they eventually had to pay much more. Our advice? Never try to make an honest buck based on a lie. The truth always wins... eventually.

CHARLES PONZI