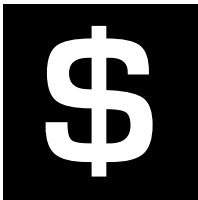


# Student Activities



## Lesson Six

---

### Cars and Loans

name: \_\_\_\_\_

date: \_\_\_\_\_



## operating costs of a motor vehicle

model year \_\_\_\_\_

make, size, model \_\_\_\_\_

### fixed costs

**Depreciation:** Purchase price \$ \_\_\_\_\_  
divided by estimated life \_\_\_\_\_ years

\$

**Annual interest on auto loan** (if applicable)

\$

**Annual insurance costs**

\$

**License, registration, taxes**

\$

### variable costs

**Gasoline:** estimated miles per year \_\_\_\_\_  
divided by \_\_\_\_\_ miles per gallon times  
the average price of \$ \_\_\_\_\_ per gallon

\$

**Oil changes** for the year

\$

**Tires**

\$

**Maintenance, repairs**

\$

**Parking and tolls**

\$

**total costs**

\$

**divided by miles per year**

**equals**

**cost per mile \$**

### part 2...

Based on business visits, phone calls, advertisements, and the internet, obtain information for the cost of (a) an oil change, (b) a tune-up, (c) new brakes, (d) tires.



## warranties and service contracts

---

Find an example of a motor vehicle warranty and of a service contract. Then, answer the following questions.

1. What is the warranty for?
  
  
  
  
  
  
  
  
  
  
2. What type of warranty is it (as-is, implied, dealer, manufacturer's)?
  
  
  
  
  
  
  
  
  
  
3. List the basic terms of the warranty.
  
  
  
  
  
  
  
  
  
  
4. What is the service contract for?
  
  
  
  
  
  
  
  
  
  
5. List the basic terms of the service contract.



## shopping for a car loan

Amount of Loan \$ \_\_\_\_\_

| <b>Financial institution</b> |  |  |  |  |  |
|------------------------------|--|--|--|--|--|
| <b>APR</b>                   |  |  |  |  |  |
| <b>Length of loan</b>        |  |  |  |  |  |
| <b>Monthly payment</b>       |  |  |  |  |  |
| <b>Total finance charge</b>  |  |  |  |  |  |
| <b>Total to be repaid</b>    |  |  |  |  |  |

### directions

Pretend that you have decided to purchase a new car. Select the model you would like and find out what it costs. Then, shop around for the best car loan terms. Try several different institutions, such as a bank, a credit union, and a private moneylender.

When you have finished, look at your chart. Which loan would you take? What features make it more appealing than the others? Which institutions offered the best rates, and why do you think they did so?

name: \_\_\_\_\_

date: \_\_\_\_\_



## shopping for insurance

### minimum coverage required by state

Company 1 \_\_\_\_\_

Company 2 \_\_\_\_\_

Agent \_\_\_\_\_

Agent \_\_\_\_\_

Address \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Phone \_\_\_\_\_

|                                                        | Amount of Coverage | Premiums for Company 1 | Premiums for Company 2 |
|--------------------------------------------------------|--------------------|------------------------|------------------------|
| Bodily injury liability                                |                    |                        |                        |
| Property damage                                        |                    |                        |                        |
| Personal injury protection (no-fault insurance states) |                    |                        |                        |
| Uninsured motorist                                     |                    |                        |                        |
| Other                                                  |                    |                        |                        |

### coverage you desire

|                                                        | Amount of Coverage | Premiums for Company 1 | Premiums for Company 2 |
|--------------------------------------------------------|--------------------|------------------------|------------------------|
| Bodily injury liability                                |                    |                        |                        |
| Medical                                                |                    |                        |                        |
| Property damage                                        |                    |                        |                        |
| Personal injury protection (no-fault insurance states) |                    |                        |                        |
| Uninsured motorist                                     |                    |                        |                        |
| Collision— \$250 deductible                            |                    |                        |                        |
| Collision— \$500 deductible                            |                    |                        |                        |
| Towing and labor                                       |                    |                        |                        |
| Other                                                  |                    |                        |                        |

### which company best suits your needs?



## how much would you spend?

---

### scenario 1

Manuel wants to buy a car. But before he goes shopping, he wants to know exactly how much he can afford to spend each month on owning, operating, and maintaining a car.

**Manuel's net monthly income is \$1,280. His fixed expenses are:**

- \$350 for rent

**His flexible monthly expenses are:**

- \$75 for savings
- \$25 for utilities
- \$185 for food
- \$35 for transportation (bus fare)
- \$150 for tuition and books
- \$40 for entertainment
- \$20 for personal items
- \$29 for household items

If Manuel gets a car, he expects to spend about \$40 a month on gas and oil, and about \$20 on parking and bridge tolls.

Manuel needs to have car insurance. He has shopped around and expects that a car insurance premium for the type and year of car he wants will cost about \$225 a month.

### directions

Use the attached budget sheet and loan calculator ([practicalmoneyskills.com/calculators](http://practicalmoneyskills.com/calculators)) to complete the following chart and answer the following questions.

## how much would you spend? (continued)

### car for \$6,000 (Amount of loan: \$6,000)

|                       |           |
|-----------------------|-----------|
| APR:                  | 10%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 14%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 12%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 16%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

### car for \$8,000 (Amount of loan: \$8,000)

|                       |           |
|-----------------------|-----------|
| APR:                  | 10%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 14%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 12%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 16%       |
| Length of Loan:       | 60 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

## how much would you spend? (continued)

---

### car for \$10,000 (Amount of loan: \$10,000)

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 10%       |
| <b>Length of Loan:</b>       | 60 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 14%       |
| <b>Length of Loan:</b>       | 60 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 12%       |
| <b>Length of Loan:</b>       | 60 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 16%       |
| <b>Length of Loan:</b>       | 60 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

1. Which car can Manuel afford?
2. What are the terms of the loan that would allow Manuel to buy a car and still stay within his budget?
3. Using the column “How You’d Do It” on Manuel’s budget worksheet, figure how you would set up a budget if you had Manuel’s income and expenses.
4. What were the main differences between the budget you set up using Manuel’s income and expenses and the budget that was provided?



## how much would you spend? (continued)

### Manuel's budget

| income              | scenario  | how you'd do it | difference |
|---------------------|-----------|-----------------|------------|
| Job #1              | \$        | \$              | \$         |
| Job #2              | \$        | \$              | \$         |
| Other               | \$        | \$              | \$         |
| <b>Total Income</b> | <b>\$</b> | <b>\$</b>       | <b>\$</b>  |

### fixed expenses

|                                 |           |           |           |
|---------------------------------|-----------|-----------|-----------|
| Rent                            | \$        | \$        | \$        |
| Car insurance                   | \$        | \$        | \$        |
| Installment payments            |           |           |           |
| Car loan payment                | \$        | \$        | \$        |
| Credit card 1                   | \$        | \$        | \$        |
| Credit card 2                   | \$        | \$        | \$        |
| <b>Total installment debt</b>   | <b>\$</b> | <b>\$</b> | <b>\$</b> |
| <b>Percentage of net income</b> | <b>%</b>  | <b>%</b>  | <b>%</b>  |

### flexible expenses

|                                      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
| Savings                              | \$        | \$        | \$        |
| Utilities                            | \$        | \$        | \$        |
| Food                                 | \$        | \$        | \$        |
| Transportation                       | \$        | \$        | \$        |
| Bus fare                             | \$        | \$        | \$        |
| Gas and oil                          | \$        | \$        | \$        |
| Parking and tolls                    | \$        | \$        | \$        |
| Repairs                              | \$        | \$        | \$        |
| Tuition                              | \$        | \$        | \$        |
| School expenses                      | \$        | \$        | \$        |
| Clothing                             | \$        | \$        | \$        |
| Entertainment                        | \$        | \$        | \$        |
| Household items                      | \$        | \$        | \$        |
| Personal items (toothpaste, etc.)    | \$        | \$        | \$        |
| <b>Total Monthly Expenses</b>        | <b>\$</b> | <b>\$</b> | <b>\$</b> |
| <b>Total income - total expenses</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> |



## how much would you spend? (continued)

---

### scenario 2

Rose is thinking about buying a car. She has \$1,000 saved for a down payment. Before she goes shopping, she wants to know how much she can afford to spend each month on a car.

**Rose brings home \$926 each month from her first job, and \$974 from her second job.**

**Her fixed expenses include:**

- \$250 for rent
- \$34 for a credit payment on some furniture she bought several months ago that has a total outstanding balance of \$540

**Her flexible monthly expenses are:**

- \$100 for savings
- \$20 for telephone
- \$175 for food
- \$45 for transportation (bus fare)
- \$70 for tuition
- \$20 for school supplies
- \$40 for clothing
- \$40 for entertainment
- \$20 for household supplies
- \$29 for personal items

If Rose gets a car, she expects to spend about \$60 a month on gas and oil, and about \$30 on parking and bridge tolls.

If Rose gets a car, she will need car insurance. She has done some research, and she expects her car insurance premium to be about \$175 a month.

### directions

Using the attached budget sheet and the online calculator ([practicalmoneyskills.com/calculators](http://practicalmoneyskills.com/calculators)), complete the following chart.

## how much would you spend? (continued)

### car for \$4,000 (Amount of loan: \$3,000)

|                       |           |
|-----------------------|-----------|
| APR:                  | 10%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 14%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 12%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 16%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

### car for \$6,000 (Amount of loan: \$5,000)

|                       |           |
|-----------------------|-----------|
| APR:                  | 10%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 14%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 12%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |

|                       |           |
|-----------------------|-----------|
| APR:                  | 16%       |
| Length of Loan:       | 36 months |
| Total Cost of Loan:   |           |
| Monthly Payment:      |           |
| Total Finance Charge: |           |



## how much would you spend? (continued)

### car for \$8,000 (Amount of loan: \$7,000)

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 10%       |
| <b>Length of Loan:</b>       | 36 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 14%       |
| <b>Length of Loan:</b>       | 36 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 12%       |
| <b>Length of Loan:</b>       | 36 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

|                              |           |
|------------------------------|-----------|
| <b>APR:</b>                  | 16%       |
| <b>Length of Loan:</b>       | 36 months |
| <b>Total Cost of Loan:</b>   |           |
| <b>Monthly Payment:</b>      |           |
| <b>Total Finance Charge:</b> |           |

- Which car can Rose afford?
- What are the terms of the loan that would allow Rose to buy a car and still stay within her budget?
- Using the column "How You'd Do It" on Rose's budget worksheet, figure how you would set up a budget if you had Rose's income and expenses.
- What were the main differences between the budget you set up using Rose's income and expenses, and the budget that was provided?

## how much would you spend? (continued)

### Rose's budget

| income              | scenario  | how you'd do it | difference |
|---------------------|-----------|-----------------|------------|
| Job #1              | \$        | \$              | \$         |
| Job #2              | \$        | \$              | \$         |
| Other               | \$        | \$              | \$         |
| <b>Total Income</b> | <b>\$</b> | <b>\$</b>       | <b>\$</b>  |

### fixed expenses

|                                 |           |           |           |
|---------------------------------|-----------|-----------|-----------|
| Rent                            | \$        | \$        | \$        |
| Car insurance                   | \$        | \$        | \$        |
| Installment payments            |           |           |           |
| Car loan payment                | \$        | \$        | \$        |
| Credit card 1                   | \$        | \$        | \$        |
| Credit card 2                   | \$        | \$        | \$        |
| <b>Total installment debt</b>   | <b>\$</b> | <b>\$</b> | <b>\$</b> |
| <b>Percentage of net income</b> | <b>%</b>  | <b>%</b>  | <b>%</b>  |

### flexible expenses

|                                      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
| Savings                              | \$        | \$        | \$        |
| Utilities                            | \$        | \$        | \$        |
| Food                                 | \$        | \$        | \$        |
| Transportation                       | \$        | \$        | \$        |
| Bus fare                             | \$        | \$        | \$        |
| Gas and oil                          | \$        | \$        | \$        |
| Parking and tolls                    | \$        | \$        | \$        |
| Repairs                              | \$        | \$        | \$        |
| Tuition                              | \$        | \$        | \$        |
| School expenses                      | \$        | \$        | \$        |
| Clothing                             | \$        | \$        | \$        |
| Entertainment                        | \$        | \$        | \$        |
| Household items                      | \$        | \$        | \$        |
| Personal items (toothpaste, etc.)    | \$        | \$        | \$        |
| <b>Total Monthly Expenses</b>        | <b>\$</b> | <b>\$</b> | <b>\$</b> |
| <b>Total income - total expenses</b> | <b>\$</b> | <b>\$</b> | <b>\$</b> |



## lesson six quiz: cars and loans

### true-false

1. \_\_\_\_ Most used cars sold by private parties have a one-year warranty.
2. \_\_\_\_ A service contract is designed to avoid costly repairs as a motor vehicle gets older.
3. \_\_\_\_ The Truth-in-Lending law requires that a borrower be informed of the total finance charge.
4. \_\_\_\_ Bodily-injury liability covers the damage to another person's car for which you were at fault.
5. \_\_\_\_ Collision insurance covers damage caused to a motor vehicle by vandalism or floods.

### multiple choice

6. \_\_\_\_ The most reliable source for buying a used car is usually:
  - A. a rental car company
  - B. a police auction
  - C. a car dealer
  - D. private party sales
7. \_\_\_\_ \_\_\_\_\_ warranty refers to the fact that a product will do what it is designed to do.
  - A. An extended
  - B. An implied
  - C. A dealer
  - D. An unexpired manufacturer's
8. \_\_\_\_ The Truth-in-Lending law requires that borrowers be informed of the:
  - A. amount financed
  - B. cost of auto insurance
  - C. features of an extended warranty
  - D. reasons a person has been denied credit
9. \_\_\_\_ The auto insurance coverage for damage to your vehicle as a result of an accident is called:
  - A. property damage
  - B. comprehensive
  - C. liability
  - D. collision
10. \_\_\_\_ Doctor costs for injuries to others resulting from an accident are covered by \_\_\_\_\_ liability.
  - A. medical
  - B. collision
  - C. bodily injury
  - D. comprehensive

### case application

Angelina drives a seven-year-old car that recently needed \$1,300 in repairs. Each day, she drives 46 miles to and from her job. What actions should she take to decide if she should (1) keep this car, (2) buy a newer used car, or (3) buy a new car?