Lesson 4: Car Buying

What a Ride!

Target Audience: 9-12 grade students
60-90 minute lesson

Objectives

EPF.10 The student will develop consumer skills by
- d) Determining the consequences of conspicuous consumption
- e) Describing common types of contracts and the implications of each
- f) Demonstrating comparison-shopping skills

EPF.11 The student will demonstrate knowledge of planning for living and leisure expenses by
- a) Comparing the costs and benefits of purchasing vs. leasing a vehicle

EPF.13 The student will demonstrate knowledge of credit and loan functions by
- a) Evaluating the various methods of financing a purchase
- g) Explaining the need for good credit

EPF.14 The student will demonstrate knowledge of the role of insurance in risk management
- a) Distinguishing among the types, costs and benefits of insurance coverage

Materials

- Lesson plan (the green words are a basic script guideline for the teacher)
- PowerPoint presentation
- Vocabulary cards, role play scripts, car handouts (a Honda Civic was chosen for this lesson)
- Car loan application, buyers order, car loan contract
- Laptops with internet access
- Big butcher paper and markers
- Video: Meet Pete: First Car

Introduction

Play Meet Pete Video: First Car
Break the students up into four groups. Hand out the Auto Trader car preview to each group. Each group will have a different type of car to preview. Have students brainstorm good and bad things about each car. They will need butcher paper and markers for this activity. Proceed by having a whole group discussion on why or why not their group's car is a good choice for a high school student.

Lesson

Go to www.vacu.org or www.kbb.com and model how to build a car on the Internet. Have students build their own car. Proceed to have them print out a picture with the cost of the car. This works well if each student has their own laptop. If a laptop is not available for each student, build a class car. Let several students share their car with the class.

Sometimes the choices we make are not the best thing for us financially. We need to make sure that we know and understand all the ramifications of car ownership. Before we begin the lesson, let's review some basic economic vocabulary and then we will see how we can apply the vocabulary words to better understand the process of buying a car.

There are two different activities you could facilitate for vocabulary review.

1. Pass out the vocabulary cards and definitions to eight students. Have them match up the right word with the definition.
2. Have students write down the vocabulary word and the correct definition. Then view the slide with the correct matches to see if they were right.

View and discuss the Vocabulary slides.
Review what each word means and encourage students to use the vocabulary throughout the lesson.

View the Points to Ponder slide and discuss the following:

- What factors made them pick their car?
- Were they surprised at the cost of the car?
- Will scarcity play a part in the availability of their car?
- Could they or their parents really afford the car they chose?
- What are other factors that one must take into consideration when buying a car?

View and discuss the Ongoing Additional Cost slide.

There are more costs involved in car ownership then just the monthly payment or initial price of the car.

View and discuss Insurance slides.

Virginia requires by law to carry insurance on your automobile. You must have the insurance in place before you register your auto and receive the tags for it at DMV. If you do not do this you will receive penalties.

The state of Virginia only requires you to carry liability insurance, not what is known as full-coverage. Liability insurance is what protects you in the event you are involved in an accident and injure another person or cause damage to their property. There is a minimum set by the state of Virginia.

If you have a loan on your auto the loan company will require you to carry coverage to take care of your car. Most people call this full coverage. Financial institutions do this to protect their interest in your automobile. They need to make sure if something happens to your car they will be able to get their money back on the loan. If you fail to carry the proper insurance that is required when securing an auto loan the lender has the right to put what is known as Forced Insurance on your auto. This can be extremely expensive and can run higher than what it probably would have cost you if you had placed it yourself.

Auto insurance prices are very hard to estimate for an individual without actually doing an insurance quote. In Virginia credit has a factor in insurance as well as your age, driving history (tickets, accidents, and years of driving history), the zip code where you live, the auto itself and other factors. You should always receive an insurance quote before you actually purchase an auto so you do not have a shock and find out the car you just purchased carries a very high insurance price. The more responsible you are as a driver and the more practical auto you select the better your rates should be.

View and discuss the Optional Costs slide.

You should now have a good understanding of the ongoing costs of car ownership.
There are also some optional costs that could occur when you purchase a car.
GAP is Guaranteed Asset Protection. This covers the gap between what the insurance company will pay on the car versus what you owe on the car if it is totaled or stolen.

An Extended Warranty Plan is a contract between you and a service provider. Some people purchase optional auto warranties to shield themselves against costs resulting from mechanical breakdown and/or failure to their vehicle. The cost may vary greatly for an extended warranty plan, and it is important to evaluate the cost versus the potential benefits of the plan. You should also be aware and comfortable with the company providing the plan.

Credit life and credit disability insurance pay on your car loan if you die or cannot work due to becoming disabled.

- Credit life pays the remainder of your loan in the event you die before the loan is repaid.
- Credit disability makes payments if you become sick or disabled and are unable to work.

These optional services could be offered to you when you buy a car. They are not required but can offer benefits. It is important to know if you need these services before you shop for a car. That way you can make the best decision to meet your needs.

Let's take a look at the two types of car options and the pros and cons of each.

View and discuss the New Cars and Used Cars slides. (These slides are self-explanatory.)

On the New Car slide there is the following question: Is supply and demand an advantage or disadvantage?

Sometimes the law of supply and demand can be considered an advantage for new car buyers. During certain times of the year, the supply for particular models of cars might be high and the demand low. If this is the case a buyer could get a better deal. However, if the supply is low and the demand is high for a particular model, this would be a disadvantage to a new car buyer.

Another point is research shows that most new cars lose thousands of dollars in value the minute you drive them off the lot.

View and discuss the How Will You Pay for Your Car slide.

Ideally, one should pay cash for a vehicle but this is not possible for the majority of Americans. The other two options are obtaining a loan or leasing a car.

View and discuss the Loan and Leasing slide.

A car loan is taken out by a person to purchase a vehicle. Interest can be charged by the institution that issues the loan. Once the loan is paid off the car belongs to the purchaser. It is an eventual asset. Loans do not have mileage limitations, and there are different payment options to choose from.

Leasing is very similar to renting a car. You are paying for the right to drive a car owned by someone else. The typical lease contract is 24-36 months. Leases are very hard to get out of and most have mileage limitations. Before returning a leased car you must pay for any damages to the car and maintain maintenance on the car.

Keep in mind that credit history and scores play a big part in the ability to obtain a loan. If you chose to lease a vehicle instead of purchasing it, the leasing company requires that you carry insurance.

View the Credit slide and discuss the following:

- How does your credit affect your loan?
- What is a co-signer?
- Seek out first time buyer loans if you have no credit.

It is important to know how to interact with a salesperson.

View and discuss the How Should I Interact with a Salesperson slide.

In order to help you get an idea of what you should know before and during your negotiations with a salesperson, we will do a role playing activity.

Pick four students. Assign two to be salespeople and two to be consumers.
Role play Script 1 and Script 2

Discuss what was wrong with Script 1 and what was right with Script 2.

For our purposes, let’s pretend that we are the consumer in Script 2. We have already filled out a loan application and have been pre-approved. This is an example of an actual loan application. Let’s take a look at this document.

View document on overhead or in a handout format.

Once the consumer verifies the car that he or she wants, the dealership would generally fax a buyer’s order document to the lender that the consumer was applying with.

View the Loan Application and discuss the following:

- What are the ramifications of taking out this loan and signing the contract?
- What are your rights and responsibilities after signing the contract?
- What happens if you don’t pay your monthly payment on time?

Conclusion

View and discuss the Did You Make a Good Choice slide.

Let’s go back and pull out the car that you designed at the beginning of the lesson. Recall the factors from the lesson and decide if your first car choice is a good overall buy for what you need as a student.

Assessment

Have students write a paragraph on whether or not the car they wanted was a good choice and why.