

Buying a Car



**THE COSTS OF OPERATING A VEHICLE
THE STEPS TO TAKE WHEN BUYING A CAR
NEGOTIATING THE BEST DEAL
COMMON CAR DEALER SCAMS**

Analysis

The Common Costs of Operating a Vehicle

Name _____

Per. _____ Date: _____

Annual Average Operating Costs of a Car Driven 15,000 Miles a Year	
Doesn't Included Depreciation	
Common Car Expenses	Average Annual Cost
<i>Car Insurance</i>	\$1,115
<i>Maintenance</i>	\$766
<i>License/Registration/Taxes</i>	\$665
<i>Tires</i>	\$147
<i>Fuel</i>	\$1,681
TOTAL COSTS	\$4374

Source: AAA's Calculation for 2015

Directions: *Using the chart above, answer the following questions.*

- 1) What does the chart above show?
- 2) On average, how much does car insurance cost per year?
- 3) How much are the average costs for maintenance and tires each year?
- 4) Which is the most expensive annual cost to operate a car?
- 5) How much does license, registration, and taxes cost per year for a car?
- 6) On average, what is the total cost to operate a car annually?
- 7) What cost is not included in the chart above?
- 8) What would be the average monthly cost of operating a vehicle?

Analysis

Buying a New Car vs a Used Car

BUYING A NEW CAR	
Advantages	Disadvantages
WARRANTY: New cars typically come with a warranty that covers the cost of repairs and labor. Warranties vary with make and models. The average coverage is for 5 years or 50,000 miles, whichever comes first.	HIGHER INSURANCE, TAXES & FEES: Taxes, and registration fees for a car are higher when the car is new. Also, used cars are generally less expensive to insure compared to a new car.
DEPENDABILITY: When you buy a new car you don't need to worry about unknown mechanical problems, previous wear, or body damage.	INSTANT DEPRECIATION: Almost all cars depreciate but a new car depreciates the minute you buy it. A new car depreciates about 15% the day you drive it off the car dealer's lot.
CHOICE OF LATEST FEATURES & OPTIONS: With a new car you can have more flexibility to order a car with the features and options you want.	HIGHER PRICE: The purchase price of a new car is higher than a used car.

BUYING A USED CAR	
Advantages	Disadvantages
LOWER PRICE: Used cars have a lower purchase price and can be a much better value overall. When buying from private seller, one may have substantial savings when purchasing a used car.	HIGHER LOAN INTEREST RATE: If you finance a used car, there is a higher interest rate than for a new car. Also, cars more than seven years old might not qualify for financing.
LESS DEPRECIATION: Though used cars continue to depreciate, they depreciate much slower than newer cars. Because depreciation is the loss of the value of a car, you may save a lot of money with buying a used car.	LIMITED OR NO WARRANTY: If you purchase from a private seller, your car may not carry a warranty. A car dealer may or may not offer you a warranty on a used car. Extended warranties can be very expensive and are often not worth the cost.
LOWER INSURANCE, TAXES, AND FEES: It cost less to insure an older car, one of less value. Also, other fees and taxes are much lower.	HIGHER MAINTENANCE COSTS: Because used cars have more miles on them than new cars, they are more likely to require repairs and maintenance.

Depreciation is when the value of a car goes down due to wear and tear over time. Most all cars depreciate. If a car loses value (depreciates), you lose money, because it is worth less money.

Analysis

New Car vs. Used Car

Name _____

Per. _____ Date: _____

Directions: Using the charts showing the advantages and disadvantages with purchasing a used and a new car, answer the following questions.

- 1) Which type of car, used or new, depreciates the quickest?**

- 2) How much does a new car depreciate as soon as you drive it off the car lot?**

- 3) What does depreciation mean?**

- 4) Which type of car, used or new, will mostly cost less to insure?**

- 5) What are two advantages with buying a new car?**

- 6) What are two advantages with buying a used car?**

- 7) What are two disadvantages with buying a used car?**

- 8) What are two disadvantages with buying a new car?**

Your Own Opinion

9. What type of car, used or new, do you think is best to purchase? Explain.

Buying a Car

THE STEPS TO TAKE WHEN BUYING A CAR

RESEARCH BEFORE YOU BUY

A wise consumer always comparison shops before making a purchase. This ensures that you will obtain the highest quality product for the best price. With the car buying process, comparison shopping can save you thousands of dollars. Therefore, regardless if you are buying a new or a used car, you will want to spend time researching both types before you make a purchase. You will want to compare the different cars available, the options offered, the quality of each product, and the price. The great news is that there are many excellent resources available online to assist you with gathering valuable information. Edmunds and Kelly Blue Book are two reliable websites that have professional and consumer reviews. These websites also provide information about value, performance, customer satisfaction, and safety of cars.



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GET PREAPPROVED

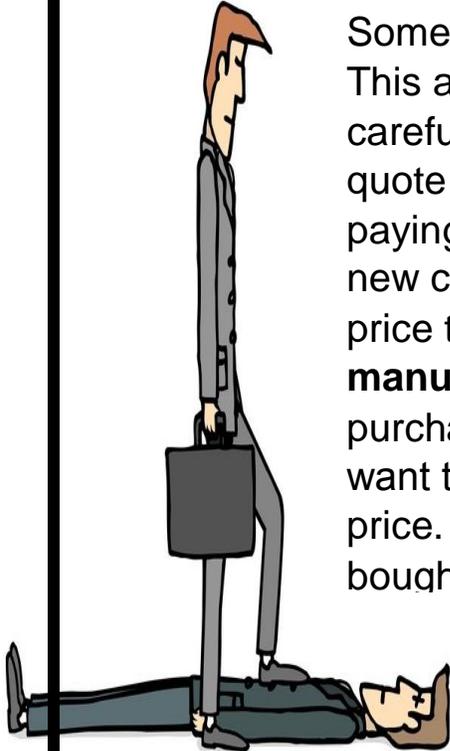
If you plan on financing your car purchase, you will want to visit a bank and get preapproved for a car loan before going to a car dealer. Shop for the lowest interest rate possible, which often can be found at your local credit union. Being preapproved will not only make the car buying experience easier, but can lead to significant savings. Car dealers make money off of the financing of cars and most often will charge much higher interest rates than a bank.

Answer each question with a complete sentence on a separate piece of paper.

1. What do wise consumers always do before buying something?
2. Before you buy a car what should you spend time doing?
3. What should you compare or look at when shopping for a car?
4. What are two reliable websites you can use to research cars?
5. What does Kelly Blue Book and Edmunds provide to consumers?
6. Before buying a car, where should you go first and get done?
7. What two things will being preapproved for car loan do for you?

NEGOTIATING THE BEST DEAL

By having done your research, knowing how much you can afford, and being preapproved for a car loan will be helpful in obtaining the best deal for a car. However, you will need to be prepared to negotiate. You do not want to be talked into buying a more expensive car or adding unnecessary extras.



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Some car dealerships and websites will give you a quote online. This approach can be helpful and save you money. However, be careful of them changing the offer when you arrive. Print out your quote and don't get talked into buying a vehicle you can't afford or paying more than the quoted price. Also, when negotiating for a new car, don't settle for the sticker price. The **sticker price** is the price that appears on the window sticker of the car. It's also called **manufacturer's suggested retail price (MSRP)**. When purchasing a car, you want to pay significantly below MSRP. You want to buy the car as close as you can to the dealer's invoice price. The **dealer's invoice price** is what the car dealership bought the car for minus any incentives they received from the car manufacturer. You can find the dealer's invoice price for a car on websites such as Edmunds, True Car, and Kelley Blue Book.

Once you have settled on a price for a new car, you will meet with the car dealer's business manager for some paperwork. The business manager isn't just there to help you fill out the forms. Beware, they are a trained salesperson, and they will aggressively try to sell you "extras." Vehicle identification number etching, fabric protection, paint protection, under coating, and extended warranties are common extras pitched by salespersons. These extras are highly profitable for car dealers. It is best to avoid them all.

8. When buying a car, what do you need to be prepared to do?
9. What do you want to avoid being talked into?
10. What will some car dealerships and websites give you?
11. What is the MSRP?
12. What is the dealer's invoice price?
13. Should you buy a car for the MSRP or the dealer's invoice price?
14. Where can you obtain the dealer's invoice price for a car?
15. When doing paperwork to buy a car, what will the business manager try to do?
16. Do you need any of the extras offered by the salesperson?



The Ownership Cost of a New Car

OWNERSHIP COSTS: 5 YEAR BREAKDOWN

Honda, LX Sedan
(2.0L 4-cyl. CVT Automatic)

Total Cash Price
\$20,108

COSTS	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Depreciation	\$3,724	\$1,744	\$1,535	\$1,360	\$1,220	\$9,583
Taxes & Fees	\$1,579	\$165	\$154	\$144	\$135	\$2,177
Financing and Car Payments	\$4,539	\$4,431	\$4,320	\$4,205	\$4,087	\$21,582
Fuel	\$1,158	\$1,193	\$1,229	\$1,266	\$1,304	\$6,150
Insurance	\$1,236	\$1,279	\$1,324	\$1,370	\$1,418	\$6,627
Maintenance	\$356	\$654	\$336	\$1,738	\$551	\$3,635
Repairs	0	0	\$111	\$269	\$393	\$773
The True Cost of Ownership	\$12,592	\$9,466	\$9,009	\$10,332	\$9,108	\$50,507

Source: edmunds.com

Directions: Use the chart above to answer the following questions.

1. What does the chart above show?
2. What type of car does the chart show the cost of ownership for?
3. How much was the total purchase price or cash price for this car?
4. After five years of ownership what is the estimated true cost of this car?
5. How much did the car depreciate (lose value) in the first year?
6. What is the total amount a person will spend on taxes and fees over five years?
7. What is the total amount a person will spend on car maintenance over five years?
8. What is the average amount a person will spend on car insurance each year?
9. Which year is the most expensive year to own a new car? Why?
10. Why do you think on the fourth year, maintenance costs for the car have spiked?
11. Which costs tend to decrease year after year?
12. Which cost tend to increase year after year?

Internet Assignment

The Ownership Costs

Directions: Go to the Edmunds website <https://www.edmunds.com/tco.html>. At this website you will select a car and the options that you are interested in and find the true cost of ownership of the vehicle. Place all of the information below in the appropriate box. After you have completed the chart, answer the question below.

OWNERSHIP COSTS: 5 YEAR BREAKDOWN

Make/Model of Car/Year

Cash Price

COSTS	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Depreciation						
Taxes & Fees						
Financing						
Fuel						
Insurance						
Maintenance						
Repairs						
The True Cost of Ownership						

Directions: Use the chart above to answer the following questions.

1. How much was the total purchase price or cash price for this car?
2. After five years of ownership what is the estimated true cost of this car?
3. How much did the car depreciate (lose value) in the first year?
4. What is the total amount you would spend on taxes and fees over five years?
5. What is the total amount you would spend on car maintenance over five years?
6. About how much would car insurance cost you each month?
7. Which year is the most expensive year to own this car? Why?
8. Which costs tend to decrease year after year?
9. Which costs tend to increase year after year?
10. Do you think that the car you chose is a good value? Why or why not?

Car Dealer Scams



Buying a new or used car can be a stressful and scary process. There is a lot at stake. Some dealerships and/or car sales persons will try to take advantage of you. There are several common tricks and scams used by unscrupulous dealerships.

Bait and Switch

A bait and switch is when a dealer advertises a car at a very low price to lure you in. However, when you show up at the car lot, they say it's already been sold. The whole point is to try and get you in the showroom. When they get you in, they will use high pressure sales tactics to buy a more expensive car.

Focusing on Monthly Payments

A common sales tactic used by many dealers is where they try and get you to focus on the monthly car payment and not the purchase price. This is one of the most common and profitable sales tactics. For instance, they may ask a question like, "*If I could get you in this car for \$325 per month, would you take the car today?*" The offer may seem attractive but if you add all the costs over the years you would be over paying. It's easy for a dealer to get you practically any monthly payment you want. Always negotiate a car deal based on the actual total price that you want to pay for the vehicle.

The Warranty Scam

There are two warranty scams that are fairly common. In the first, dealers try and hit you with a **forced warranty** for several thousands of dollars. They tell you that the bank requires you to have a warranty on the car. In the second warranty scam, the dealer tries to sneak a warranty into the terms of your deal so it inflates the monthly price. Any forced warranty is illegal and should not be accepted

These are the three of the top scams used by dealers but are not the only ones. There are many ways dealers may try and scam you. Therefore, it is important to do your research before buying a car and read your contract carefully before signing.

Answer each question with a complete sentence on a separate piece of paper.

1. What is a bait and switch?
2. In a bait and switch what will the dealer try and do?
3. What is one of the most common sales tactics used by dealers?
4. What should you always negotiate a car deal on?
5. What is a forced warranty scam?
6. What may the dealer try to sneak into the terms of a car deal?
7. In order to avoid dealer scams what is it important to do before buying car?

Assessment

Buying a Car

Name _____

Per. _____ Date: _____

Select the best answer:

- 1. To properly determine how much you can afford to spend on a car, you will need to**
 - a. ask a car dealership how much you can afford.
 - b. lease a car first.
 - c. understand the cost to operate a car.
 - d. All of the above.
- 2. Car operating expenses that you should be aware of are**
 - a. maintenance and repairs.
 - b. gasoline and insurance.
 - c. license, taxes, and registration fees.
 - d. All of the above.
- 3. A disadvantage of buying a new car**
 - a. that you get a warranty.
 - b. instant depreciation.
 - c. low maintenance costs.
 - d. All of the above.
- 4. A disadvantage of buying a used car is**
 - a. higher loan costs or interest.
 - b. higher maintenance and repair costs.
 - c. none or a limited warranty.
 - d. All of the above.
- 5. Before purchasing a car, you should**
 - a. be aware of the true cost of car ownership.
 - b. determine how much you can afford to spend.
 - c. research the different cars.
 - d. All of the above.
- 6. An advantage of buying a used car is a**
 - a. lower purchase price and less depreciation.
 - b. higher maintenance and repair costs.
 - c. higher purchase price and more depreciation.
 - d. None of the above.
- 7. When researching a car, you will want to compare the**
 - a. different cars available and expert reviews.
 - b. options offered and the quality of each car.
 - c. prices.
 - d. All of the above.
- 8. If you need to finance the purchase of a car, you should**
 - a. get a car loan at the car dealer.
 - b. get preapproved for a car loan at a bank.
 - c. borrow money from your parents.
 - d. None of the above.
- 9. When negotiating for a new car, you want to negotiate as close as you can to the**
 - a. manufacturer's suggested retail price.
 - b. lease price.
 - c. dealer's invoice price.
 - d. All of the above.

10. At a car dealer, the business manager is a trained salesperson, and they

- a. only help you complete the forms.
- b. make sure you don't over pay.
- c. will aggressively try to sell you "extras."
- d. None of the above.

11. A common sales tactic used by many dealers is where they try and get you to focus on

- a. the invoice price.
- b. the monthly car payment and not the purchase price.
- c. a low interest rate.
- d. All of the above.

True or False

12. _____ In the car buying process, comparison shopping can save you thousands of dollars.

13. _____ When purchasing a car, many people only think about or calculate the purchase price of their desired car, not the operating costs.

14. _____ Because used cars have more miles on them than new cars, they require less repairs and maintenance.

15. _____ Edmunds and Kelly Blue Book are two reliable websites that have professional and consumer reviews on cars.

16. _____ Being preapproved will not only make the car buying experience easier, but can lead to significant savings.

17. _____ Vehicle identification number etching, fabric protection, paint protection, under coating, and extended warranties are common extras pitched by the car salesperson or business manager.

18. _____ Extras are highly profitable for car dealers; therefore, you should purchase as many extras as possible when buying a car.

Depreciation
Bait and Switch
Forced Warranty

Dealer's Invoice Price
MSRP

Use the words above to complete each sentence.

19. The _____ is what the car dealership pays for the car minus any incentives they receive from the car manufacturer.

20. A _____ is when a dealer advertises a car at a very low price to lure you in.

21. _____ is when the value of a car goes down due to wear and tear over time.

22. A _____ is when a dealer tells a person buying a car that the bank requires them to buy a warranty for the car.

23. _____ is often called the **sticker price**. It is the price that appears on the window sticker of the car