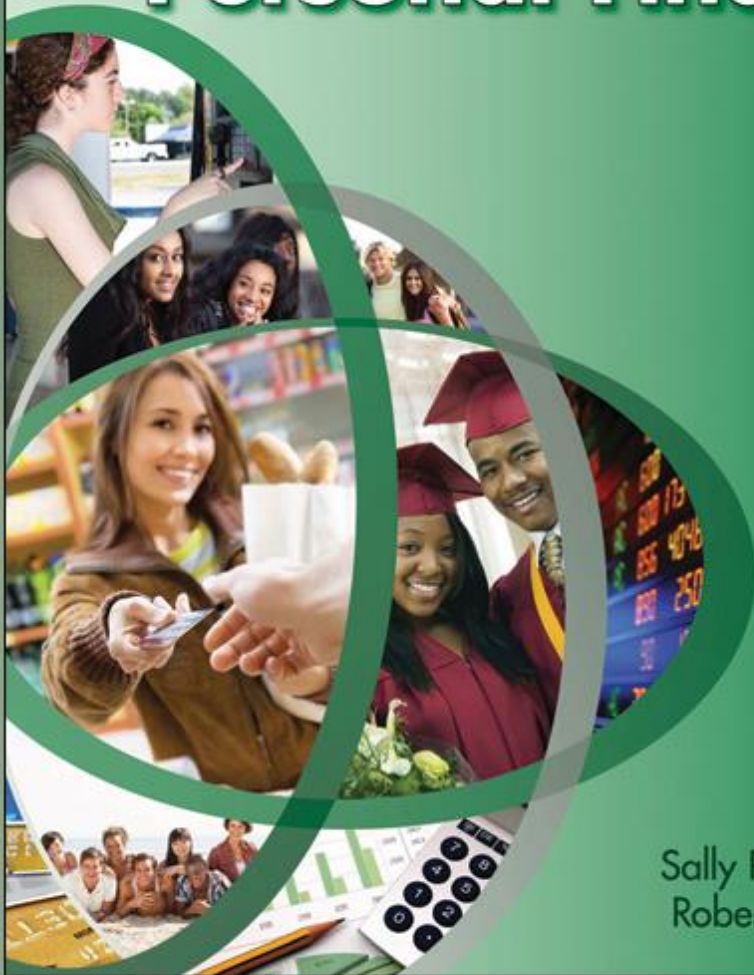


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Foundations of Personal Finance

Ninth Edition



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PowerPoint Presentations for

Foundations of Personal Finance

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Chapter 14

Transportation

Section 14.1

TRANSPORTATION CHOICES

Objectives

- Identify various types of transportation.
- Explain how to evaluate transportation choices.

Terms

- mass transit
- commuter service
- moped
- motor scooter

Forms of Transportation

- **Mass transit** is public transportation for large numbers of people
 - Airplanes
 - Buses and trolleys
 - Trains and subways
- Taxicabs
- Cars and other passenger vehicles

Did You Know?

Public transportation offers many advantages over other forms of transportation:

- Costs less to the community
- Needs less urban space
- Is less energy-intensive
- Pollutes less
- Is the safest mode
- Improves accessibility to jobs
- Offers mobility for all

Mass Transit Systems

- Mass transit systems vary from city to city in terms of:
 - Quality
 - Cost
 - Safety
 - Reliability
- **Commuter service** is mass transit that runs mainly during business hours (commuter trains, ferryboats)

Cars and Other Passenger Vehicles

- Cars and passenger vehicles have major expenses:
 - Purchase price
 - Insurance
 - License fees
 - Maintenance
 - Fuel
 - Parking
 - Traffic

Cars and Other Passenger Vehicles (Continued)

- Carpools can:
 - Save money on gas
 - Reduce repairs and maintenance expenses
 - Save energy
 - Minimize parking problems and fees
 - Reduce traffic congestion
 - Use carpool lane
 - Limit flexibility because needs of other riders must always be considered

Two-Wheelers

- Bicycle
- **Moped** is a motorized two-wheeler with engine capacity of less than 50cc (may or may not have pedals), with top speed of about 25 mph
- A **motor scooter** is a two-wheeled motor vehicle with an engine capacity of 50cc to 250cc, typically reaches speeds of 30 to 40 mph
- Motorcycle

Did You Know?

- The average American spends 18 cents out of every dollar on transportation; 98 percent of that is for the purchase, operation, and maintenance of automobiles
- Spending on transportation is second only to housing as the largest household expense

Evaluating the Choices

- Determine your transportation needs
- Identify your available choices
- Compare costs
- Consider comfort and convenience
- Consider safety
- Consider personal preferences

In Your Opinion

If you were going to purchase a vehicle based on fuel economy, which type of vehicle do you feel would be best for limiting carbon dioxide emissions?

Review 14.1

- What is a two-wheeled motor vehicle with an engine capacity of 50cc to 250cc?
 - Motor scooter
- Is a taxicab considered mass transit?
 - No

Section 14.2

FINDING AND FINANCING AN AUTOMOBILE

Objectives

- Evaluate the types of car sellers.
- Evaluate car makes and models.
- Identify sources of information you can use when shopping for a pre-owned car.
- Identify common costs associated with buying and maintaining a car.
- Describe the final four-point check.
- Identify sources for financing a car.

Terms

- certified used car
- bill of sale
- option
- vehicle identification number (VIN)
- down payment
- depreciation

Automobile Marketplace

- Traditional dealerships usually represent one or two manufacturers and sell new and used cars
- Auto superstores typically carry huge inventories of used cars and sell both new and used vehicles
- Private sellers give no warranty unless the original warranty is still in force
- Auctions sell used cars as-is with no warranty

Certified Used Car

- A **certified used car** is a previously owned vehicle that has received a thorough mechanical and appearance inspection along with necessary repairs and replacements
 - Most meet age and mileage restrictions
 - Dealer often extends existing warranty or issues a new 12-month or 12,000-mile warranty

Bill of Sale

- A **bill of sale** is a legal document that details sale and transfers rights from seller to buyer

Assessing Car Needs

- Size
- Appearance and styling
- Performance and handling
- Safety records and features
- Model or body type
- Features and options
- Fuel efficiency
- Hybrid or standard
- Domestic or import
- Warranty coverage

Resources

- *Kelly Blue Book*
- *Edmunds*
- *Official Used Car Guide* from National Automobile Dealers Association (NADA)
- Auto Safety Hot Line from the National Highway Traffic Safety Administration
- Magazines (*Car and Driver*, *Motor Trend*, and others)

Size, Style, and Make

- Compact, small, mid-size, large
- Two and four-door sedans
- Station wagons
- Hatchbacks, convertibles, sport cars
- Pickups or light trucks
- Sport-utility vehicles (SUVs)
- Minivans
- Full-size vans

Options

Common Options

Common Options			
Safety options or features	<ul style="list-style-type: none"> • Air bags • Antilock brakes • Child restraint seats • Automatic restraint system • Alarm system • Rear wiper and defrost • Fog lights • Daytime running lights 	Convenience and preference options or features	<ul style="list-style-type: none"> • Air conditioning • Sound system • Sunroof • Electronic instrument panel • Power seats • Intermittent windshield wipers • Rear wiper and defroster • Leather seats • Plush interior • Power mirror adjustment • Trip computer • Adjustable steering column • Adjustable ride control • Electronic vehicle monitor • GPS (global positioning system)
Performance options or features	<ul style="list-style-type: none"> • Automatic transmission • Power steering • Front-wheel or four-wheel drive • Large engine • Cruise control 		
Security options or features	<ul style="list-style-type: none"> • Antitheft alarm system • Single switch lock • Wireless cell phone connectivity • Remote keyless entry 		

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Warranty

- A **warranty** is a written promise that a vehicle's manufacturer will make necessary repairs at no cost for a stated period of time or number of miles
 - Example: three years or 36,000 miles
 - Extended warranties may be purchased from the manufacturer
 - Private used-car warranties are often costly; make sure you understand the terms and limitations

Pre-Owned Cars

- A new car loses 15 to 20 percent of its value when you drive it off the lot
- Used cars sold by dealers are required to have a Buyer's Guide sticker describing warranty coverage or lack of warranty
- A buyer should get all promises in writing
- The **vehicle identification number (VIN)** is a unique number assigned to identify a vehicle; located on dashboard, driver's side doorjamb, and title

Did You Know?

- For a fee, you can check the history of a used car online using its vehicle identification number
- The history report will include information on accidents, flood damage, theft, recalls, liens on the vehicle, odometer records, and manufacturing details

Previous Owner

- Normally you will have no warranty coverage
- Ask a lot of questions if you buy the car from the owner
 - Is the seller the original owner?
 - How was the car driven and maintained?
 - Ask for service and other records

Estimating Car Costs

- Consider both the purchase price and the ongoing costs of car ownership
 - Most car buyers pay a **down payment**, a portion of the purchase price, and a loan is taken out for the rest
 - These buyers will make monthly payments on the loan that includes interest charges
 - Taxes and fees

Estimating Car Costs (Continued)

- Insurance premiums
- License and registration
- Operating costs (gasoline)
- Maintenance
 - Oil changes
 - New batteries
 - New tires and tire rotations
 - Car washes and interior cleanings
- Repair costs
- Parking costs

Estimating Car Costs (Continued)

Calculating Gas Costs

Starting with a full tank of fuel, record the mileage on the odometer. From that point on, record how many gallons of gasoline you buy, the price, and the odometer reading.

Example:

Full tank	Cost	Odometer 8,500
10 gallons	\$35.00	Odometer 8,725
13 gallons	\$46.15	Odometer 8,970
9 gallons	\$31.32	Odometer 9,243
Total gallons = 32	Total cost = \$112.47	Total miles = 743 (9,243 ÷ 8,500)
Miles per gallon: $743 \text{ miles} \div 32 \text{ gallons} = 23.22$		
Cost of gas per mile: $\$112.47 \div 743 \text{ miles} = 15 \text{ cents}$		

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Depreciation

- **Depreciation** is a decrease in the value of property as a result of use and age
 - Represents the difference between the amount you pay for the car and the amount you can get for it when you sell or trade
 - A major cost of car ownership

Did You Know?

Used cars cost less to buy and insure. They also depreciate more slowly.

Financing

- Shop around for car loans before you go to the car dealer
- Compare interest rates and length of loan
- You will need proof of age, and that you have a job to earn income
- The lender will look at your credit report
- The creditor will use the car as collateral and be listed as a lienholder on the title

Financing (Continued)

Interest

Repayment Period	Annual Percentage Rate		
	6%	8%	10%
12 Months	\$32	\$ 43	\$ 54
24 Months	\$63	\$ 85	\$107
36 Months	\$95	\$128	\$161

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Leasing a Vehicle

- Lessee makes an initial payment and makes monthly payments for set time period
- Capitalized cost is the value of the vehicle on which the lease is based
- A reduction in cost may include cash down payment, trade-in allowance, and incentives
- Residual value is the car value at the end of the lease
- Lease term is usually between 24 and 48 months and is recommended to limit it to the warranty period
- Mileage limitations will be 12,000 to 15,000 with extra charges for excess mileage, wear and tear
- Money factor is the interest rate (usually multiplied by 24)

Review 14.2

- What is the advantage of having a large down payment when you are financing the purchase of a car?
 - You need to borrow less money
- What is the unique number assigned to an automobile?
 - Vehicle identification number (VIN)

Section 14.3

CONSUMER PROTECTION AND RESPONSIBILITY

Objectives

- List major consumer protections for car buyers.
- Describe the responsibilities of car ownership.

Terms

- lemon
- lemon law
- FTC Used-Car Rule

Discussion

Why is it important to read carefully any loan agreement before signing it?

Truth in Lending Act

- Amount borrowed or financed
- Total amount to be repaid
- Dollar cost of finance charges, total amount paid for the use of credit, including interest charges and other fees
- Annual percentage rate (APR)
- Date charges begin to apply
- Number, amount, and due dates of installment payments
- List an explanation of any penalties for late payment, default, or prepayment
- Description of security pledged, usually the car

Did You Know?

Loans with prepayment penalty do not allow the borrower to pay off the loan early and save on interest charges. Avoid these types of loans.

Truth in Lending Act (Continued)

- If the loan agreement is with the dealer, the contract must also state:
 - Full description of the car
 - Retail or cash price of the car
 - Deferred payment price (price with credit charges)
 - Amount of the down payment

Before Signing Any Loan Agreement

- Read it carefully
- Ask questions if any part of contract is unclear
- Make sure there are no blank spaces or lines to be filled in later
- Pay special attention to the creditor's legal rights in case of late payment, default, or prepayment
- Review your financial situation to be sure you can carry out your responsibilities and make payments according to the terms in the contract

Lemon Laws

- A **lemon** is a vehicle that has serious mechanical problems that the manufacturer has been unable to fix after a reasonable number of attempts
- A **lemon law** requires the seller or manufacturer to repair or replace the defective vehicle or refund the buyer's money

Discussion

Have you ever heard of a person who had a vehicle that was considered a lemon?

Magnuson-Moss Warranty Act

- Provides protection for purchasers of a product that costs over \$25 and has a manufacturer's warranty
- When a motor vehicle needs repairs three times or more for the same problem, the repairs provide proof of the ineffectiveness of the manufacturer's warranty
- Buyers may have a right to receive damages for the reduced value of the vehicle, and also keep the vehicle
- If the buyer incurs legal expenses related to the problem, the manufacturer must pay the legal expenses

FTC Used-Car Rule

- **FTC Used-Car Rule** requires dealers to disclose to buyers what is and is not covered under a used vehicle's warranty
- Dealers must post Buyer's Guide on all used vehicles

Car Owner Responsibilities

- Maintain your car
- Go to service shops and mechanics you trust
 - Reputation
 - Competence
 - Facilities, equipment, and parts inventory
 - Convenience
 - Charges
 - Paperwork

Review 14.3

- What is a vehicle that has serious mechanical problems that the manufacturer has been unable to fix after a reasonable number of attempts?
 - Lemon
- What is a law that requires dealers to fully disclose to buyers what is and is not covered under a used vehicle's warranty?
 - FTC Used-Car Rule