

Buying Your First Car



Buying your first car can be both exciting and nerve racking. Many first time car buyers must decide if they want to buy a used car or a new car. Both situations have their advantages and disadvantages. A used car will be cheaper than a new car but may experience unwanted repairs that will cost the owner money. A new car may be more reliable but a disadvantage of a new car is the value of the car will depreciate (diminish in value over a period of time) the moment you drive the car off the lot.

Many first time car buyers do not have enough money to buy a new car so they must finance their car through a bank or loan company. These companies will charge the borrower interest in exchange for the money. As the borrower begins to pay down the loan, they start to build equity (the difference between the value of the car and the amount owed on the loan). In this activity we will take a look at buying a new car using a loan.

Congratulations on buying a new car! The total amount of the car is \$17,000. Wells Fargo Bank has loaned you the money for your car at an interest rate of 2% per month, but you must pay them \$500 a month.

Scenario One: You learn that your car depreciates at a rate of 0.9% per month. Use this information and the information about the loan to determine if you will have any equity after 2 years. If you do have equity, state how much you will have.

Scenario Two: Another car expert claims the car will depreciate \$150 a month. Use this information and the information about the loan to determine if you will have any equity after 2 years. If you do have equity, state how much you will have.

Each group will work both scenarios on a separate sheet of paper to answer the questions. Once the group feels they have answered the questions completely, they will transfer their work to a poster.

Each group member should be assigned a role. One person will be in charge of reading the introduction above to the group members. This person will also be in charge of the calculator. Only one calculator should be used during this activity. The group should put together a plan on a separate sheet of paper. The second member of the group will be in charge of writing the plan. The third person will be in charge of completing the poster that will be displayed in the class. If a fourth person is in the group, they will be the time keeper and the only person in the group that can ask the teacher a question.