

# JUNIOR ACHIEVEMENT \$AVE, USA

HIGH SCHOOL GRADES

Parent/Student Financial Literacy Feature



## The Cost of a Car

Having a car is something many teens dream of, but their imaginations may not include expenses that are part of the car-owning experience. Owning a car means paying for insurance, gasoline, oil changes, and maintenance. If we buy a used car, we also might have some repairs to deal with. All these expenses can take a big bite out of our budgets. In fact, in the United States, people spend almost as much on their cars as on food and medical care combined (Source: [www.bikesatwork.com/carfree/cost-of-car-ownership.html](http://www.bikesatwork.com/carfree/cost-of-car-ownership.html)).

Economists call the tires that go with the car complementary goods, or items that go together. Other complementary goods are cars and mufflers or cars and gas. Buying gas is especially important to consider, because the price can change, sometimes daily. In the summer of 2008, gas prices rose to more than \$4 a gallon. When gas prices spike, we need to adjust our budgets accordingly and cut down on other expenses to fill our gas tanks.

Read the story below with your teen, and discuss the complementary expenses of each car. Then decide which car is the best choice.

### Dear Parent/Guardian:

Thank you for downloading this Financial Literacy Feature. We hope the information and activities offered will be helpful in strengthening your family's financial literacy skills.

Expenses are part of owning a car—what good is a car without a set of tires?

### Activity

One Saturday afternoon, Ben and his Dad were looking through the local newspaper's ads for used cars. Ben had just received his driver's license and was eager to have his own car. (Continued on Page 2.)



"Keep in mind, Ben," said his dad, "that the price of buying a car is just one part of the expense of owning it. Keeping gas in the tank will add to the cost, as will repairs and unexpected expenses, like a new muffler or battery. I think we should make a list of all the costs you'll have each month, and then you can decide on what you can afford."

**Directions:** Help Ben estimate his monthly car expenses (round numbers to the nearest dollar):

Gas (10 gallons x \$2.75 a gallon x 4 weeks)	\$ _____
Insurance (estimate at \$1,200 per year)	_____
Regular maintenance/oil changes, tune-ups (estimate at \$500 a year)	_____
License plates and city permit (estimate at \$120 a year)	_____
Incidentals/tires, brakes, muffler (estimate at \$200 a year)	_____
<b>Total monthly expenses</b>	<b>\$ _____</b>

Ben knows he'll have to get a loan to buy a car. He figures he can make a down payment of \$1,000 and can afford a monthly payment of \$230. Added to the \$\_\_\_\_\_ in car expenses, that amounts to \$\_\_\_\_\_ each month.

"Whew," sighs Ben, "the regular car expenses are more than the car payments. Thank goodness I have a good job."

Here are four cars that Ben liked. Use the chart below to collect information about each car.

First, use this auto loan calculator at [www.bankrate.com/calculators/auto/auto-loan-calculator.aspx](http://www.bankrate.com/calculators/auto/auto-loan-calculator.aspx) to find out what Ben's monthly payment will be for a four-year loan at 10 percent interest. (Don't forget to subtract his \$1,000 down payment from each car's total price.)

Next, list what is positive and negative about each car in the chart on Page 3. Finally, put a check next to the car you would buy if you were Ben. Explain why.

**Car 1:** 2001 2-door hatchback, AC, CD player, 5-speed, 90,000 miles, new tires, needs some body work, runs good, \$4,200 or best offer. Call Samar, (123) 456-7878

**Car 2:** 2004 sub-compact sedan, automatic transmission, sun roof, 50,000 miles, new brakes, good condition, runs good, \$4,800 or best offer. Call José, (123) 468-9090

**Car 3:** 2006 SUV, automatic, AC, great sound system, only 30,000 miles, like new, very clean, \$7,000 firm. Call Jamal, (123) 408-7854

**Car 4:** 2007 convertible, automatic, 5-changer CD, sun roof, power seats/windows, new exhaust system, 50,000 highway miles, stored in winter, \$10,000 or best offer. Call Tasha, (123) 333-7632

Explain the key features that influenced your choice.

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Car	Good Points	Bad points	Check (✓) your choice
Car #1 Monthly Payment: _____			
Car #2 Monthly Payment: _____			
Car #3 Monthly Payment: _____			
Car #4 Monthly Payment: _____			

Answers:  
 Monthly car expenses Gas: \$110; Insurance \$100; Regular maintenance \$42; License plates and permit \$10; Incidentals \$17. Total monthly expenses: \$279.  
 Blank 1: \$279; Blank: \$509.  
 Monthly payments Car 1: \$81.16; Car 2: \$96.38; Car 3: \$152.18 Car 4: \$228.26.

**About JA Worldwide®** (Junior Achievement)

Junior Achievement is the world's largest organization dedicated to providing relevant and innovative programs that inspire and prepare young people to succeed in a global economy. Through a dedicated volunteer network, Junior Achievement provides in-school and after-school programs that focus on three key areas: work readiness, entrepreneurship, and financial literacy. Since its founding in 1919, Junior Achievement has contributed to the business and economic education of millions of young people around the world. For more information, visit [www.ja.org](http://www.ja.org).

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