

New South Wales Commerce and Mathematics

Module 5 Buying a car



Financial Literacy
Curriculum Resource
2008 Revised Edition

Contents

Contents	2
Introduction	3
Module 5: Buying a car.....	4
Background scenario	4
Teacher notes	4
Key terms and definitions	4
Task 1: Can Royce afford that car?	6
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	6
Task 2: Car insurance	8
Teacher notes, Student activities & Learn about, Learn to.....	8
Task 3: Buyer beware	10
Teacher notes, Student activities & Learn about, Learn to.....	10
Task 4: Borrowing money for a car.....	12
Teacher notes and Scenario	12
Student activities & Learn about, <i>Learn to</i>	13
Conclusion: So what did Royce decide to do?	14
Stimulus material.....	15
H.5.1 Car insurance internet research task	15
H.5.2 Loan comparisons	16

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Introduction

The Commonwealth Bank has been supporting education for more than 70 years, since the introduction of school banking in 1931. In 2003, we strengthened our commitment to education through the establishment of the Commonwealth Bank Foundation.

The Foundation seeks to encourage developments in education, particularly the financial literacy skills of young Australians, and aims to create awareness, skill and understanding of the benefits of a more financially literate community.

By helping our young people understand money management, we will empower them to take effective decisions to achieve their financial goals.

With this in mind, we are pleased to announce the availability of a national financial literacy curriculum resource which has been developed to support the teaching of financial literacy in the classroom.

Developed by a National Steering Committee comprising representatives across a broad range of state and territory education departments, sectors and professional teachers' associations, the curriculum materials have been designed to support the teaching of financial literacy in Years 7 to 10.

This practical and relevant curriculum resource has been designed to be easily incorporated into a number of subject areas and has been mapped to the curriculum in each state and territory.

There are twelve modules covering:

- Earning an income
- Spending and saving
- Consumer decisions
- Consumer protection
- Buying a car
- Financial services
- Managing finances
- Consumer awareness
- Personal investment
- Planning and running a business
- Impact of technology
- Economics of everyday finance

The resource materials can be easily downloaded via the Commonwealth Bank Foundation's website www.commbank.com.au/foundation

We hope you find this resource a valuable tool to use in your classroom.

The Commonwealth Bank Foundation Team



Module 5: Buying a car

Background scenario

The case studies are developed around two families: the Drivers and their relatives the Fullbricks; as well as their friends and workmates. The Drivers, Ilse and Laurie, have two teenagers: Elizabeth, aged 15, and Nathan, aged 17. Both work part-time. Ilse has ongoing medical problems and Laurie works for a small trucking company. Grandmother Josefina lives with the family. The second family is the Fullbrick family, to whom they are related through Uncle Frank, Ilse's wealthy brother. Frank Fullbrick runs a construction company, and his partner Sella is a marketing manager. Mark is their teenage son.

Royce lives next door to the Drivers and is good friends with Nathan and Elizabeth.

Teacher notes

The *Buying a car* scenario provides students with opportunities to engage in making decisions using financial literacy skills as a model or example of the process of making a major financial decision. It may be necessary for other learning about financial literacy to precede this unit of work.

The decision to use *Buying a car* as a case study is based on the age and interests of students. Despite concerns raised about gender stereotypes, it was decided to retain the male character, Royce, as the focus, as Royce portrays a positive male role model of a safe behaviour. A female character can be substituted or the class could develop their own "Buying a car" scenario.

Guide students in a discussion of the gender issues related to buying a car, e.g. the type of cars related to gender expectations and peer pressure. Discuss the impacts that having a car versus not having a car can have on lifestyle and lifestyle choices.

The concluding scenario should only be made available once students have largely finished learning about buying a car. It is designed to challenge the "personal" decisions they made for Royce during learning by providing an unexpected alternative solution that is financially and socially sound. It allows the open-ended questions listed at the end of the unit to be discussed in a wider context of making sound financial decisions in a variety of social contexts and changing personal circumstances.

There are also general teacher notes available at the beginning of each unit.

Key terms and definitions

Car insurance quote	A price quoted for a premium to cover a car in an accident.
Comparative interest rate	A calculation to assist consumers to compare the cost of credit and includes fees and charges.
Comprehensive car insurance	A premium is paid to an insurance company to cover the repair or replacement costs of a vehicle involved in an accident. Conditions apply and these conditions will vary from policy to policy.
Consumer Credit Code	A code of guidelines to regulate the provision of credit.
Credit provider	An organisation that lends money.

Credit rating	Correctly known as a credit report, it indicates your record in using credit. A database listing of credit defaults is used by financial institutions to help decide if you are a good credit risk.
Encumbered (unencumbered)	A legally binding contract where the car is listed as loan security. This means that if loan repayments are not met then the car may be repossessed. However, as the value of cars can drop very quickly, when the car is sold after repossession it may not be for the full amount remaining on the loan. As a result, it will still be the responsibility of the borrower to repay the remainder of the outstanding debt. An unencumbered vehicle is not being used for loan security.
Guarantor	A person who guarantees the repayment of a loan on behalf of the borrower, if the borrower defaults on repayments.
Interest rate	The cost of borrowing money, or the return on savings.
Loan security	Assets that may be sold to repay a loan in cases of default.
No claim bonus	A lower car insurance premium reward for not having an insurance claim.
Third party insurance	Insurance which protects all people injured in an accident.
Third party property insurance	Insurance which protects the property of others involved in an accident, but not the vehicle causing the accident.

Task 1: Can Royce afford that car?

Teacher notes

Students can work, individually, in pairs or as a class with a range of different cars and money examples for later comparison. Care needs to be taken that students stick to realistic cars within the described budget and not use the lesson to look at “fantasy cars”.

Scenario

Royce, Nathan’s next door neighbour and apprentice carpenter, is finding getting to work with his tools very difficult. This wasn’t a problem until recently as he was able to get a lift with his brother. Royce needs to buy a car.

Royce has \$10,000 in his bank account. He is 18 and has had no driving offences since he got his licence 18 months ago.

One lunch break Royce wanders into a car yard. After talking with a car salesman, he realises buying a car is much more complicated than he thought. Nathan and Royce decide to research the background information needed to buy a car without being ripped off.

Student activities

Task 1A. Choosing the car

Survey the sort of cars Royce could choose. Do the task individually and then collate class findings. Use a range of source material such as brochures, newspapers, classified listings and websites such as:

<http://www.redbook.com.au/>

<http://www.tradingpost.com.au>

<http://www.drive.com.au/>

1. What price range could Royce look at?
2. What sort of cars can be purchased in this price range?
3. Develop and present the pluses, minuses and interesting views (PMI) on the car choices Royce can make.

Pluses	Minuses	Interesting
New car	New car	
Used car	Used car	

4. Discuss the choices in relation to gender issues that can include different choices, reasons, use, lifestyle, etc.
5. Identify the type and anticipated cost of a hypothetical car you would choose for Royce to buy, give reasons.
6. Give an explanation of the anticipated effect this would have on Royce’s lifestyle, personal finances and responsibilities associated with owning and driving his own car. (Note: for some this may be a decision not to own a car.)

Learn about, *Learn to*

Commerce

1.1 Consumer Choice Consumer decisions

- Comparison shopping - different brands and services - choosing what to buy
- Key factors affecting consumer decisions - finance, price, marketing, age, gender, convenience, service
- *Research consumer information from a variety of sources that may include the Internet, advertising material, specialist magazines and comparison shopping surveys*
- *Select and apply appropriate criteria to rank alternative purchasing options*
- *Explain the factors affecting consumer decisions*

Mathematics

Consumer Arithmetic NS5.1.2

- *make informed decisions related to purchases*

Task 2: Car insurance

Teacher notes

Car insurance is addressed very early in the car buying process as the cost of comprehensive insurance on a young driver can have a profound effect on the type of car they can afford to drive and maintain.

Discussions with bank and credit union loan officers identified the significant impact of the cost of comprehensive car insurance on young people getting a car loan. In the majority of cases the cost of insurance had not been factored into the budget of the young person when purchasing their first car. If the cost of insurance had been included in the car-buying budget then the make, model and price of the car could well have changed. Comprehensive insurance was found to be as much as 33% of the purchase price of the car in a 12 month period. Comparison shopping can reduce the cost of insurance by as much as 50%.

Task 2B asks students to obtain hypothetical online car insurance quotes. Not all of the websites listed will work for all states and territories, but all states and territories are covered by some of the sites. The idea of this exercise is for students to get a picture of the way insurance quotes can differ and the sort of things that can affect them. So as a class it will be a good idea to cover a range of options, e.g. location, age of driver, as well as quotes from a number of websites.

Student activities	Learn about, <i>Learn to</i>
<p>Task 2A. Car insurance issues</p> <p>Download and photocopy the following:</p> <ul style="list-style-type: none"> • <i>In the driver's seat</i>: an ASIC resource. Go to http://www.fido.gov.au Click on "Publications & resources", then "Booklets and brochures" and then scroll down the page to find it. If you have difficulties downloading the material you may need to save it to your computer before being able to view it. Instructions on how to do this are located on the same page. • Go to http://www.fido.gov.au and search for "<i>Warren's story</i>". <ol style="list-style-type: none"> 1. Identify and analyse the different types of car insurances that are available. Discuss the different personal circumstances each type of insurance would be best used for. 2. How do the following factors affect insurance? <ul style="list-style-type: none"> • location • gender • insurance excess • no claim bonus • special conditions • what the insurance actually covers. 3. What are the effects of accident statistics on car insurance premiums? Why are premiums higher for males than for females? (Accident statistics are available on state Road and Traffic websites.) 4. Read and compare the information on car insurance. 	<p>Commerce Option 5 - Towards Independence Managing finances</p> <ul style="list-style-type: none"> • Types of insurance - household, personal • <i>Identify and cost types of essential insurance</i> <p>1.1 Consumer Choice Consumer decisions</p> <ul style="list-style-type: none"> • Comparison shopping <ul style="list-style-type: none"> - types of goods and services - different brands and products - choosing what to buy • Key factors affecting consumer decisions - finance, price, marketing, age, gender, convenience, service • <i>Research consumer information from a variety of sources that may include Internet, advertising material, specialist magazines and comparison shopping surveys</i> • <i>Select and apply appropriate criteria to rank alternative purchasing options</i> • <i>Explain the factors affecting consumer decisions</i> • <i>Examine factors which</i>

5. Discuss what you have learned about car insurance and list questions or issues for further clarification in the individual Internet research task.

Task 2B. Internet research task

1. Undertake the car insurance Internet research task detailed on *H.5.1 Car insurance Internet research task*
2. Return to *Warren's story*. How did Warren have a no-claim bonus even though he had never owned a car? What can you do to reduce the cost of car insurance?

contribute to changes in behaviour and practices by individuals and organisations

Mathematics

Fractions, Decimals and Percentages

NS4.3

- *evaluate best buys and special offers eg discounts*

Consumer Arithmetic

NS5.1.2

- *calculating a "best buy"*
- *realise the total cost and/or hidden costs involved in some types of purchase arrangements*
- *make informed decisions related to purchases eg determining the best mobile plan for a given situation*

Consumer Arithmetic

NS5.2.2

- *analyse promotional and advertising material that is collected from a variety of sources including the Internet*

Warren's story, can be directly located at:

<http://www.asic.gov.au/fido/fido.nsf/byheadline/Warren%27s+story%3A+choosing+car+insurance?openDocument>

Task 3: Buyer beware

Teacher notes

Buyer beware is simply trying to identify as many factors and expenses as possible that the consumer should consider when buying a car. The Dream Generator calculator has been specifically developed for young people and includes different costed lifestyle options against which students can 'test' their financial assumptions and learning.

Student activities

Task 3A. Getting information and counting the costs of buying a car

- As a class, briefly discuss the following list of issues and costs involved in buying a car:
 - buying a new or second-hand car
 - different kinds of insurance (comprehensive, third-party)
 - on-road costs (stamp duty, registration, delivery charges)
 - extended warranties (optional)
 - licence requirements (e.g. effect of driving offences)
 - whether the vehicle is encumbered
 - doing a REVS check
 - considerations about running and maintenance costs
 - finance options (e.g. leasing).

For each item on the list:

- what do you think it means?
- what are the considerations for the buyer?
- what do you think are the costs involved?
- what are any other considerations or costs you can think of?

- Go to <http://www.fido.gov.au> Click on "young adult" under "About you" on the top of the page. Scroll down to "Other websites" at the bottom of the page. Use your state/territory specific site and/or use the Money Stuff site: <http://www.moneystuff.net.au> and follow the links "Just facts" > "Car".

- Review information available related to the list above and write down what you have learned about the considerations and costs involved in buying a car.

Task 3B. Can Royce afford the car?

- Go to <http://www.dollarsandsense.com.au/> Follow the links "Toolbox" > "Dream generator" > "Buy a car?" to check if Royce can afford the car he wants to buy.
- Repeat using your own information on a realistic hypothetical car you could buy.
- Check the components costed in the "Dream generator" against what you discussed in class and what you learned from Internet research. Were your thoughts about the costs involved in buying a car accurate?

Learn about, *Learn to*

Commerce

Option 5 - Toward Independence

Major purchases

- Main items to be purchased for independent living
- Processes involved in purchasing major items
- Item selection, loans, contracts, warranties, insurance
- Identify the options for major purchases in a hypothetical situation*
- Investigate and describe the purchasing processes for selected item - new, second hand, joint ownership*
- Recognise likely problems associated with purchasing major items and devise strategies to overcome them*

Mathematics

Consumer Arithmetic

NS5.1.2

- calculating and comparing the cost of purchasing goods using:
 - cash
 - loans
- prepare a budget for a given income, considering such expenses as rent, food, transport*
- realise the total cost and/or hidden costs involved in some types of purchase agreements*
- make informed decisions related to purchases eg determining the best mobile plan for a given situation*

Task 4: Borrowing money for a car

Teacher notes

The scenario of the meeting with Franca the bank manager includes a significant amount of information that is used to reference student learning. It is important to clarify the financial terminology used.

The financial strategies model an appropriate way of obtaining finance within the legislative constraints of the Consumer Credit Code. This requires the Comparative Interest Rate of a loan to be advertised, so that accurate comparison of different types of loans can be made. However in some communities, people with insufficient income become targets for finance that is outside the criteria of the code and may well be illegal, e.g. cash in advance for “pay cheques” and some applications of “book-up”. The Consumer Credit Code website is an excellent source of background information for teachers. Go to <http://www.creditcode.gov.au> Links to each state and territory are included. During the trial of this module, teachers successfully used graphic calculators to support Task 4A.

Task 4D asks students to fill out a hypothetical loan application form. They do not need to get bogged down in the accuracy or detail of the information required. The task is simply intended to give them a picture of the sorts of things required when applying for a loan.

Scenario

Royce wants to find out about what is involved in borrowing money to buy a car. Nathan makes an appointment for them both to go and see Franca, a family friend, who is a bank manager. The first thing Franca wants to know is if Royce has a credit rating, as this will affect Royce’s ability to get a loan approved.

Franca then explains that there are different sorts of loans: with different conditions, fees, charges and interest rates available through “credit providers” such as banks, building societies, credit unions, finance companies and businesses. She tells him that a “Consumer Credit Code” has been adopted by the states and territories to make sure that credit providers around Australia follow the same rules.

Franca points out the effect of interest rates on the loan and fees and charges that are additional to the loan. She advises them to look for the “comparison rate” of interest. She also points out that as Royce is 18 and has never borrowed money before he might need someone to be a guarantor for him. She also explains that some types of loans require “security”, such as the car itself, for the loan to be approved.

Franca advises Royce to do his homework by comparing loans from different credit providers to identify the loan that best suits his needs. She points out that the finance provider will usually require the car to be insured comprehensively and the cost of insurance will need to be included in the overall cost of purchasing and running the car.

Franca warns them to remember the longer the term of the loan, the greater the cost. She invites them to come and see her again once Royce has found a suitable loan to apply for and reminds them to never sign anything without getting independent advice first.

“Whoa!” says Royce. “Borrowing money to buy a car is more complicated than I thought. I sure have a lot of work to do before I can start driving to work.”

Student activities	Learn about, <i>Learn to</i>
<p>Task 4A. Borrowing - Your credit rating</p> <ol style="list-style-type: none"> Most people have a credit rating. To find out more about your credit rating go to the Fido website at: http://www.fido.gov.au Select "Loans & credit" under "About financial products" and read the information on "Your credit report". Royce has a mobile phone contract. He had one really big phone bill he couldn't pay on time. What sort of credit rating do you think Royce has? Give reasons. <p>Task 4B. Credit providers</p> <ol style="list-style-type: none"> What loans are available to Royce to add to the \$10,000 he has saved? Go to http://www.infochoice.com.au to compare loans available. Click on "Personal loans" under the "Banking" tab, then "Browse all: car loans" to see the range of institutions Royce can choose from for his loan. Use the information at this site to complete <i>H.5.2 Loan comparisons</i>. Select one financial institution from each category, ensuring the class covers a range of institutions. To find all information required, you may need to visit the site of the particular institution. Links are provided on the Infochoice website. <p>Task 4C. Needing a guarantor</p> <p>Royce has paid a visit to one of the financial institutions you investigated in the previous task and made inquiries about applying for a loan. The financial consultant has told him that for his loan to be approved he will need to find a guarantor.</p> <ol style="list-style-type: none"> Undertake a search of your state or territory government consumer affairs website for the legal implications of being a guarantor. What are Royce's responsibilities to the guarantor? What are the legal responsibilities of the guarantor? <p>Task 4D. Applying for a loan</p> <p>Download and print a Personal Loan Application form from http://www.commbank.com.au/Guides/BankingForYou/PersLoan.pdf Go through the application and make a list of the things you need to find out:</p> <ul style="list-style-type: none"> information and documentation you need to provide and the decisions you need to make to apply for a loan. Fill out the loan application form; either for Royce, or imagine yourself in a similar situation at age 18. <p>Task 4E. It's finally time to buy the car</p> <ol style="list-style-type: none"> Given what you have learned in this unit write a letter or email to Royce and explain to him what are the options, costs and hidden problems that he will need to address in buying a car with a budget of \$20,000 where \$10,000 has to be borrowed. Include your personal advice on which loan to choose. 	<p>Commerce 1.2 Personal Finance Borrowing money</p> <ul style="list-style-type: none"> Reasons for borrowing Getting a loan - types of loans, lending institutions, ability to repay, credit rating <i>Discuss the reasons for and against borrowing money</i> <i>Evaluate the borrowing options for making a substantial purchase</i> <i>Identify specific situations in which individuals should or should not borrow</i> <i>Compare the advantages and disadvantages of different types of loans and lenders</i> <i>Identify factors affecting an individual's credit rating</i> <p>Mathematics Consumer Arithmetic NS5.1.2</p> <ul style="list-style-type: none"> calculating and comparing the cost of purchasing goods using loans <i>prepare a budget for a given income, considering such expenses as rent, food, transport</i> <i>compare simple interest with compound interest in practical situations eg loans</i> <i>realise the total cost and/or hidden costs involved in some types of purchase agreements</i> <i>make informed decisions related to purchases eg determining the best mobile plan for a given situation</i> <p>Consumer Arithmetic NS5.2.2</p> <ul style="list-style-type: none"> <i>solve problems involving compound interest</i> <i>analyse promotional and advertising material that is collected from a variety of sources including the Internet, e.g. loan repayments</i>

2. Discuss the following question: If Royce were a female, how would your advice change? Consider the differences between male and female choices and circumstances, financial constraints and lifestyle when buying a car.

Conclusion. So what did Royce decide to do?

Royce didn't borrow \$10,000 to buy a new car. He heard that his boss was buying a new work ute. Royce offered his boss \$8,500 from his savings to buy the old one, which his boss accepted. Royce knew it was a good buy. His boss had looked after the ute well. It had been serviced regularly, had never been in an accident and had a great security tool box built into the tray. As Royce did not need to take out a loan to purchase the ute and he had a good driving record, he decided he would take the risk and not insure the ute comprehensively. Royce used some of his remaining savings to take out third party property car insurance with fire and theft cover of \$5,000 for the vehicle instead. This was a considerable saving on the comprehensive car insurance he would have had to pay if he had a car loan. Although the ute was not his dream car he was happy, as it meant he was not constantly worrying about how he was going to pay for everything on his second year apprentice wage.

You have developed a range of skills and strategies in buying a car.

1. How are the skills and strategies transferable to other situations? Give some examples.
2. How do you know you are asking the right questions to support and protect your own money and finances in a range of different circumstances?

H.5.1 Car insurance Internet research task

From the following websites review and select those suitable for your particular state or territory (always be critical of the quality and accuracy of the websites you use). As a class, collect several insurance quotes on the potential cars that Royce is looking into buying.

http://www.aami.com.au/products/stop_compare/compare_aami_car_insurance.asp

<http://www.nrma.com.au/pub/nrma/motor/index.shtml>

<http://motorinsurance.com.au/car.html>

<http://www.allianz.com.au/>

http://www.carsales.com.au/pls/carsales!/cs_content.insurance_search

<http://www.cgu.com.au/personal/car.shtml>

<http://motor.comminsure.com.au/Default.aspx>

<http://www.apia.com.au> (The Australian Pensioners Insurance Agency can be used to make interesting comparisons related to age)

<http://www.1stforwomen.com.au/?LinkId=01772&>

<http://www.allianz.com.au/allianz/CI+Products.html>

Many other websites are available.

Use the proforma below to collate insurance information for comparison.

Name of insurance company	
Type of insurance	
Sum insured (how much you would get if the car was written off)	
Annual premium (one payment covering 12 months)	
Monthly premium (12 months insurance paid in monthly instalments)	
Excesses applicable (this can vary, e.g. basic excess + age or inexperienced driver excess + gender excess)	
Applicable no claim bonus	
Any discounts available	
Other information	
Weekly cost of the car insurance	

Include discussion of the following:

- Recommend specific insurance for Royce's car purchase options.
- What is the effect of the cost of insurance on Royce's personal finances and lifestyle?
- How does the cost of insurance affect the car Royce decides to buy?
- Revisit decision on the type of car(s) Royce could buy now that the insurance costs have been identified.
- The factors affecting the cost of insurance, e.g. age and experience of driver, gender, postcode/locations, type of car, no claim bonus.

H.5.2 Loan comparisons

Loan comparison			
Loan feature	Bank	Credit union	Other
Minimum-maximum amount			
Interest rate (variable, fixed)			
Comparison interest rate			
Start-up fees (list separately)			
Other fees and charges (list separately)			
Security required			
Length/term of loan			
Monthly repayments*			

* Loan calculators are available on many sites including <http://www.calarecu.com.au/>
 To calculate the monthly repayments use five years as the length of the loan.
 However, don't forget that the total cost of the loan will vary depending on the term of the loan.