



Road Rules: Researching and Buying a Car

LESSON 3: TEACHER'S GUIDE

Buying a car is one of the first major financial decisions that many teens and young adults face. While several considerations factor into this purchase, one of the most important is the buyer's monthly payment, which is based on the car's purchase price and terms of the loan. In this lesson, students will shop for a car virtually, evaluating various loan options and learning what it means to be "creditworthy."

Topic: Buying a Car

Time Required: 45 minutes

SUPPLIES:

- Computers or tablets
- Internet access
- Notebooks
- Student activity sheet

PREPARATION:

- Copy student activity sheet

STUDENT ACTIVITY SHEET:

Deal or No Deal: Understanding Car Loans

This activity will teach students how the loan principal, interest rate and term all factor into a monthly car payment. Students will calculate car payments using five different lending scenarios.

LEARNING OBJECTIVES:

Students will...

- Understand the concept of creditworthiness
- Research consumer borrowing
- Compare various types of car loans and lenders

STANDARDS:

Jump\$tart Standards:

- Credit Standard 1
- Financial Responsibility Standard 2

National Standards for Economics:

- Standard 7: Markets and Prices
- Standard 9: Competition and Market Structure
- Standard 10: Institutions

Common Core ELA Anchor Standards:

- Writing: Research to Build and Present Knowledge
- Speaking and Listening: Presentation of Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Common Core Math Standards:

- Number and Quantity: Quantities
- Modeling

Essential Question

“How can I turn my dream of owning a car into reality?”

Investigate: Dream Car

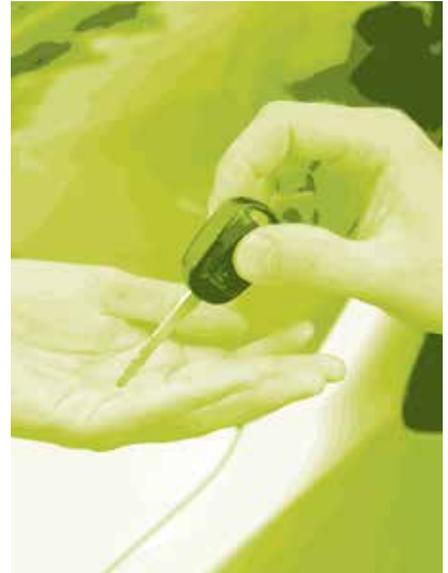
[Time Required: 5 minutes]

1. Begin by asking students about their dream cars. What would they drive if money were no object? Why? What factors go into purchasing a car besides price?
2. Next, tell students to imagine they have saved \$5,000 toward the purchase of a car, an amount that can serve as a **down payment**. What steps do they think they should take next toward making their purchase?

Student Preparation

[Time Required: 15 minutes]

3. Distribute the Student Activity Sheet ***Deal or No Deal: Understanding Car Loans***, which outlines some of the next steps in the process. Then invite them to visit sites such as truecar.com and Edmunds.com to find the purchase prices of potential cars. Discuss the factors that go into this decision: if they select a vehicle that costs much more than \$5,000, they will be in debt for longer (due to a loan). Other factors include gas mileage, new vs. used, depreciation, and matching a car to one's lifestyle.

**Challenge: Understanding Car Loans**

[Time Required: 15 minutes]

4. Ask students how a car that costs more than their \$5,000 could be **financed**. Explain that buyers often take out **loans** from a bank to cover the remaining cost. Discuss how these loans will need to be repaid on a monthly basis, with interest.
5. Have students calculate what their monthly payment would be for each of the loans on the student activity sheet. How long would it take to repay the loan in order to own the car in full?
6. Invite students to share which loan they would choose and to explain their reasoning. Is it always better to choose the loan with the lowest **interest rate**? Why or why not?

7. Ask students whether they think they will automatically get the loan they want. Why or why not? Explain that banks choose to whom they will extend loans. What factors do students consider when lending something to a friend or family member? Responses may include trust, reliability, history of returning borrowed items in good shape and money to pay for something borrowed if it breaks.
8. Explain that this concept is known as **"creditworthiness"** and is an analysis made by a lender when deciding whether or not to lend money to a consumer. Talk about steps students can take to protect their credit now, including paying any bills on time.

**TEACHER'S TIP****What is Reflection?**

The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Reflection

[Time Required: 10 minutes]

Invite students to reflect in their journals about the three most important factors to consider when buying a car. Why are these factors important? How has their thinking changed since the beginning of the lesson? Is their dream car the same or would they choose a different vehicle? Why?

