

Chapter 4

Comparison Shopping

8-2 Assignment

Read Section 8-2 in the textbook packet and answer the following questions.

Questions 16-52: Determine if the following statements are True or False.

- _____ 16. With a rebate, the seller refunds a portion of the purchase price of the product either as a direct payment or a credit against future purchases.
- _____ 18. The larger the down payment one can make on a purchase, the easier the payments will fit into one's budget.
- _____ 21. When comparison shopping, your goal is to make a decision to purchase an item.
- _____ 22. When comparison shopping, the "rule of 3" says you should visit a store three different times before making a major purchase.
- _____ 24. During the comparison-shopping phase, you narrow the choices so you can begin negotiating for the best deal.
- _____ 25. Prices on "big ticket" items such as vehicles, furniture, appliances, and electronic equipment are usually the same from seller to seller.
- _____ 27. When researching safety on a vehicle, you should check on recalls.
- _____ 29. The gross capitalized cost includes the price of the vehicle plus what the dealer paid to finance the purchase plus any other items, including insurance or a maintenance agreement over the life of the lease.
- _____ 30. Capitalized cost reductions are monies paid on the lease at its inception, including any down payment, trade-in value, or rebate.
- _____ 31. The money factor (or lease rate or lease factor) measures the rent portion of your lease payment.
- _____ 32. The residual value is the projected value of the leased asset at the beginning of the lease time period.
- _____ 35. An early termination charge may be levied if you decide to end a lease prematurely.
- _____ 36. Leases work best for people who plan to buy a new vehicle every five to seven years.
- _____ 39. The early termination payoff is the total amount you would need to repay should you wish to end the lease agreement early and includes the early termination charge and the unpaid lease balance.
- _____ 40. Balloon auto loans were developed by lenders in response to the popularity of auto leasing.
- _____ 41. Implied warranties are in effect unless a product is sold as is.
- _____ 42. Written warranties are required by federal law on all new products costing over \$15.
- _____ 44. An express warranty must be classified as either a full or a limited warranty.
- _____ 45. Under a full warranty, a product will be fixed at no cost to the buyer.
- _____ 46. Full warranties are valid for the life of the product.
- _____ 47. A limited warranty covers free parts and labor.
- _____ 48. One part of a product can be covered by a full warranty while the rest of the product could be covered by a limited warranty.

- ____ 50. A service contract comes at no additional cost and offers free repairs for a specific period of time.
- ____ 51. Service contracts are becoming more prevalent in the new car market because they are generally a good value for consumers.
- ____ 52. Service contracts are generally very profitable for their sellers.

Questions 89-121: Determine the best answer.

- ____ 89. Owing more on a vehicle loan than the vehicle is actually worth is called being
A. upside down. B. in default. C. strangled. D. depreciation.
- ____ 90. Same as cash offers often carry the risk that
A. your interest rate will be increased.
B. all prior interest will be owed if full payment is not made within the agreed time period.
C. you will be insolvent.
D. you will lose a tax deduction for the interest owed.
- ____ 91. "Gap" insurance
A. pays off the loan balance of a "totaled" vehicle.
B. is very profitable for the dealer.
C. is a good deal for the buyer.
D. pays off the loan balance as well as being very profitable for the dealer.
- ____ 92. What does it mean in auto leasing and auto financing when you are said to be upside down?
A. You don't qualify for the lease or financing.
B. You owe more on the car than it is worth.
C. You wrecked the car and can't pay the debt.
D. None of these.
- ____ 93. What percentage of product rebates go unclaimed?
A. 25 percent B. 50 percent C. 75 percent. D. 90 percent
- ____ 94. Shad wants to consider the cost per use of a high-end, desk-top computer server he is considering for his web site business. The computer costs \$3,750 and has a life expectancy of four years. If Shad feels he would use the computer three days a week, on average, what is Shad's cost per use?
A. \$2 B. \$6 C. \$18 D. \$24
- ____ 95. Linda would like to purchase a stationary bike for \$425. She thinks she will use the bike four days a week over the next eight years. What is Linda's cost per use?
A. \$3.92 B. \$0.28 C. \$0.26 D. \$0.15
- ____ 96. Which of the following will not help you become a better on-line shopper?
A. Only do business with sellers for which you have complete contact information.
B. Use only one particular credit card for on-line purchases.
C. Use a debit card for on-line purchasing.
D. Do not use your regular e-mail address.
- ____ 97. The process of comparing products or services to find what you think is the best buy is called
A. negotiating. B. preshopping research.
C. comparison shopping. D. decision making.
- ____ 101. Auto leasing is becoming an attractive option and about ____ percent of new cars "sold" each year are actually leased.
A. 15 B. 30 C. 45 D. 60

_____ 104. The Consumer Leasing Act limits end-of-lease payments to a maximum dollar amount equivalent to _____ times the monthly payment.

- A. 2 B. 3 C. 4 D. 5

_____ 105. With a closed-end lease, there is

- A. no charge if the end-of-lease value of the vehicle is lower than the originally projected residual value.
B. the possibility of some end-of-lease charges on excess wear.
C. the possibility of some end-of-lease charges on excess mileage.
D. all of these.

_____ 106. Compare the cost of the following leasing agreement with the finance charge on a loan for the same time period. The price of the car is \$14,000, and its projected residual value at the end of four years is \$3,000.

Monthly payment	\$250
Capital cost reduction	\$1,000
Disposition charge	\$200

Other things being equal, one would want to finance this car rather than take this lease if the finance cost were less than

- A. \$200. B. \$1,550. C. \$2,200. D. \$2,450.

_____ 107. Compare the cost of the following leasing agreement with the finance charge on a loan for the same time period: The value of the car is \$15,000 at the beginning of the lease period, and its projected residual value at the end of three years is \$4,000. The lease requires a \$500 down payment.

Monthly payment	\$315
Acquisition fee	\$300
Disposition charge	\$150

Other things being equal, one would want to finance this car rather than take this lease if the finance cost were _____ or less.

- A. \$790 B. \$1,290 C. \$1,790 D. \$2,390

_____ 108. Tom has a four-year closed-end lease on his Land Cruiser. His contract stipulates a \$0.42 per mile excess mileage charge in excess of 48,000 miles. If he actually drove the vehicle 60,000 miles during the four years, he would be charged an extra _____.

- A. \$0 B. \$2,016 C. \$5,040 D. \$6,670

_____ 109. Matt has a three-year closed-end lease on his Prius V. His contract stipulates a \$0.31 per mile excess mileage charge in excess of 39,000 miles. If he actually drove the vehicle 45,000 miles during the three years, he would be charged an extra _____.

- A. \$0 B. \$1,209 C. \$1,860 D. \$5,580

_____ 110. Marina is coming up on the end of a closed-end lease on her 2007 Ford Edge. Her contract stipulates a \$0.35 per mile excess mileage charge in excess of 39,000 miles. If she actually drove the vehicle 35,000 miles during the three years, which of the following is not one of her options?

- A. Turn the vehicle back over the leasing company and receive \$1,400 ($\$0.35 \times 4,000$) refund for driving the car fewer miles than anticipated.
B. Turn the vehicle back over to the leasing company.
C. Buy the vehicle at its residual value.
D. All of these are options for Marina.

- _____ 112. With a balloon auto loan the last payment is equal to
A. three times the regular monthly payment.
B. six times the regular monthly payment.
C. the market value of the car at the end of the loan period.
D. the projected residual value of the vehicle at the end of the loan period.
- _____ 113. When the final balloon payment is due on a balloon auto loan, you can generally
a. pay the balloon payment and keep the car.
b. return the car to the lender.
c. sell the car and pay the balloon payment with the proceeds.
d. all of these.
- _____ 114. Jessie just bought an SUV and financed it with an automobile loan. She will pay 48 monthly payments of \$425 each and one final payment of \$3,000. What type of clause is in her sales contract?
A. Repossession B. Acceleration C. Balloon D. Prepayment penalty
- _____ 115. Implied warranties required by state law include a warranty of
A. merchantability. B. fitness.
C. repair. D. both merchantability and fitness.
- _____ 117. Which of the following provisions is not legally required as part of a full warranty?
A. A product will be fixed at no cost to the buyer within a reasonable period of time.
B. The owner will not have to undertake an unreasonable task to return the product for repair.
C. The warranty will cover the product for at least three years after purchase.
D. A defective product that cannot be fixed after a reasonable number of attempts will be replaced or the money will be returned.
- _____ 119. More than ____ percent of service contracts are never used.
A. 90 B. 80 C. 70 D. 60
- _____ 120. A service contract is very much like
A. insurance. B. investments. C. budgets. D. credit.
- _____ 121. Service contracts are also called ____ warranties.
A. full B. implied C. extended D. limited

Also do:

Concept Check: Page 235 #1-5

Reading:

Read "Did You Know" on page 230 and answer the following question:

A. Name three items that you are willing to buy used.

Read "Advice from a Professional" on page 235 and answer the following question:

B. Name two things you will commit to doing that will result in being a better shopper.