



## Personal Finance: Buying a Car

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At some point you are going to want a car. The question is... How much are you going to pay for that car?



# Lesson Objective

Students will learn the vocabulary related to buying a car and how to calculate the price of a car.



# Vocabulary

**Allotment:** How many cars the dealership gets from the manufacturer in a given period of time.

AKA: Dealer Allocation

**Asking Price:** The price the seller of the car posts when advertising the car.

**Base Price:** The retail cost of the car before any options are added on.

**Book Value:** The price the car typically sells for. This can be found through Kelley Blue Book, NADA guide, and other sources.

AKA: Blue Book



# Vocabulary

**Commission:** The amount of income the salesperson makes because they sell a vehicle.

**Dealer Invoice Price:** The price the dealer pays to buy the car from the manufacturer.

**Destination Charge:** The additional transportation cost to get the car to your location.  
AKA: Delivery Charge

**Incentives:** This is anything offered to car buyers, from the car manufacturer, to get them to buy the car.



# Vocabulary

**MSRP:** “**M**anufacturers **S**uggested **R**etail **P**rice” is the price the manufacturer is suggesting the vehicle be sold for.

AKA: Sticker Price, Monroney, List Price, Sticker, or Retail Price.

**Option Packages:** A package of extra options that the manufacturers will put together at a reduced price.

**Private Party Value:** The average price the vehicle sells for when not being sold through a dealership.



# Vocabulary

**Retail:** This is the price the dealer says the car is worth, and what you might pay if you don't know how to negotiate when buying a car.

AKA: List Price

**Trade-In Value:** The average price the dealership will give you for your old car when you buy a new car through them.



# Buying a Car: At the Dealership

Every car on the lot has many different prices associated with it. Let's look at how this works.

The dealer buys a Ford Taurus from the manufacturer...



He paid the  
Dealer Invoice Price (DIP)  
of **\$24,480.**



# Buying a Car: At the Dealership

The dealer then puts the car on his lot and puts a price on it. He chooses to use the MSRP of **\$26,350**.

Now if he can sell it for that price, the dealership will make...



$$\begin{array}{r} 26,350 \text{ MSRP} \\ - 24,480 \text{ DIP} \\ \hline \$ 1,870 \text{ Profit} \end{array}$$





# Cost of Upgrades

Now the dealer wants to put a truck on his lot. The lowest base price for a Dodge Ram Pickup with only the standard options is: \$30,178.



But he doesn't want just a basic model so he decides to add some features.



# Cost of Upgrades

## Cost of Upgrade Options–

Option	Retail– Increase
Base Price	\$ 30,178
Exterior Color: Blue	\$ 191
Four–Wheel Drive, 8 Ft Bed	\$ 3,063
Turbo Diesel Engine, 6.7 Liter	\$ 6,473
Speed Control	\$ 213
Spray In Bed Liner	\$ 383
Heater	\$ 77
Off Road Tires	\$ 85
Total	\$ 40,663



# Cost of Upgrades

Sometimes the manufacturer will offer Option Packages for cheaper than you can buy the parts individually.

For Example:

The manufacturer offers a “Cold Weather Package” which includes the heater and a Winter Front Grille Cover for the same price as the heater alone.





# Price of the Car: At the Dealership

With all the upgraded options, this truck will now cost the dealer: **\$40,663**. He puts it on his lot and decides to list it a little above MSRP. He is going to post it at the Retail (List Price) of : **\$44,538**.



If he can sell it for that price, the dealership will make...

$$\begin{array}{r} \$44,538 \text{ List} \\ - \quad 40,663 \text{ DIP} \\ \hline \$ \quad 3,875 \text{ Profit} \end{array}$$



# Buying a Car

If you went to the dealer's lot tomorrow and fell in love with that truck would you be able to pay cash for it? Probably not.

After all, \$44,538 is a lot of money. But what you could manage is \$600 a month. Could you still buy the truck if you got a loan?



And would you be smart if you did? Why or why not? We'll talk more about this in the next presentation.



# Review:

1. What does MSRP stand for?
  
2. What is the Retail Price?



# Review:

## 1. What does MSRP stand for?

Manufacturer's Suggested Retail Price

The price the manufacturer suggests the vehicle be sold at.

## 2. What is the Retail Price?

The price the dealer says the vehicle is worth, and what you might pay if you don't know how to negotiate when buying a car.