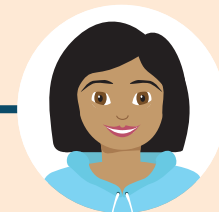


# Decision-Making



## LESSON 3

**Decision-Making**  
Staying on track to reach financial goals involves making trade-off decisions for spending on things we don't really need. Understanding how to make smart spending, saving, and investing decisions now helps set you up for a more secure financial future.



College,  
Sophomore Year



College,  
Senior Year

## But I Love That New Car Smell

Time to go car shopping! I started by researching different types of cars online, both new and used, to narrow down the models that I'm interested in. Then I headed over to a few local dealerships to look at cars in person, and I fell in love with a bright-red sports car. It's a two-seater, really fast, and super cute! I want that car!



The dealer was selling a new model for \$21,000 and offering a five-year loan at 5%. Using an online calculator, I figured that if I made a \$4,000 down payment, all I would have to do is make 60 monthly payments of \$320.81. I know the interest rate is high, but I really want that car.

When I told my parents about it, they pointed out that even though I want that car, I definitely need something more practical. Dad helped me do the math to figure out the cost of my dream car: I would pay more than \$2,200 in interest over the five-year life of the loan, and I would use up most of my savings for the down payment. And there are those other expenses I hadn't even considered: gas, maintenance, auto **insurance**, and unexpected costs for repairs. Mom explained that insurance can cost hundreds of dollars a month—and that I absolutely need it to protect myself from the financial **risk** of expensive repairs and lawsuits if I ever have an accident.



### WHAT'S THE Big Idea?

If we keep our focus on what we really need rather than what we want when we buy things, we'll have more money in the long run and a more secure financial future.

# Nikki's Car Purchase Analysis



Car Fund (Savings): \$6,500  
 Less Down Payment: \$4,000  
 Remaining Savings: \$2,500

Car Price–New	\$21,000
Down Payment	\$4,000
Amount of Loan	\$17,000
Loan Period	60 months (5 years)
Interest Rate	5%
Monthly Payment	\$321

Actual Total Cost of Car = \$23,000!  
 (\$21,000 + \$2,000 interest)



Car Fund (Savings): \$6,500  
 Less Cash Purchase: \$4,950  
 Remaining Savings: \$1,550

Car Price–Used	\$4,950
Pay Cash	\$4,950
Amount of Loan	\$0
Loan Period	None
Interest Rate	0%
Monthly Payment	\$0

Actual Total Cost of Car = \$4,950

**Remember** that recurring costs (gas, maintenance, insurance) and unexpected costs (repairs) will add expenses to your monthly budget.



Thanks, Mom and Dad, you've convinced me to spend wisely! I went back to the dealer and test-drove a safe used sedan that cost \$4,950, an amount I could pay from my savings. I had Grandpa check out the mechanics, and he approved. Sold!