

5

Why It's Important

What are the costs of owning a car? How much should you budget for clothes and food? Should you rent or buy a house? This chapter will help you learn to shop wisely for the necessities.



To learn more about buying a home or car, view the **Economics & You Chapter 11 video lesson: Buying the Necessities**



ECONOMICS *Online*

Chapter Overview Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 5—Chapter Overviews** to preview chapter information.

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CONTENTS

Shopping for Food

COVER STORY

THE COLUMBUS DISPATCH, MAY 26, 1999



Here's a new idea from Yoder's: sour cream in a squeeze-top bottle. It's a good idea if you use sour cream mostly for topping baked potatoes, nachos, and fajitas. It's probably not a good idea if you use it primarily as an ingredient. The 16-ounce plastic bottles sell for \$1.99. That compares with \$1.39 for Yoder's regular 16-ounce cartons of sour cream.

READER'S GUIDE

Terms to Know

- club warehouse store
- convenience store
- private-labeled products

Reading Objectives

1. What are the advantages of comparison food shopping?
2. What are the advantages and disadvantages of shopping at club warehouse stores?

Americans consume a great variety of foods. They can choose from thousands of different food products and buy them at thousands of stores. Hundreds of brands offer numerous choices: for example, sour cream in a 16-ounce container, sour cream in a squeeze-top bottle, sour cream mixed with chives in an 8-ounce container, and so on. In all, American consumers spend hundreds of billions of dollars a year on food. In this section, you'll learn how to get the most from your food dollars.

Comparison Shopping

Because American families spend so much for food, comparison shopping is important. It involves making comparisons among brands and sizes before you buy. You need to decide not only what to shop for but where to shop as well.



FIGURE 5.1

Checklist for Food Shopping

The following are helpful tips for getting the most from your money when you shop for food:

1. Read the newspapers ahead of time for sales and cents-off coupons.
2. Go with a shopping list and coupons. Plan a week's worth of meals so that you will buy only what you need. A list will also help you avoid additional trips to the store.
3. Avoid impulsive buying, or buying without thinking about the purchase beforehand. Be careful in the checkout line because nonessential items are placed by the cash register.
4. Buy nutritional items first. Check labels on canned and frozen goods for nutritional value.
5. Check freshness dates on dairy and bakery items.
6. Compare prices on private-labeled, generic, and national brands.
7. Check unit prices. Buy large sizes if you can use the items immediately or can store them.
8. Do not shop when you are hungry or thirsty. You will be tempted to buy more than you need.

A consumer should do only as much comparison shopping as is worthwhile, however. It does not pay a shopper to go far out of his or her way to shop at a store that has only a few needed items at low prices. Such savings would be outweighed by the additional costs of time and transportation.

Remember, your time has an opportunity cost. The more time you spend comparison shopping for food, the less time you have to do anything else. Reading advertisements is a timesaving, inexpensive way to comparison shop. Food store ads describe sales and often contain cents-off coupons. **Figure 5.1** lists this tip as well as other suggestions to follow in your food shopping.

Trade-Offs in Food Stores

Americans typically do their food shopping in either supermarkets or **club warehouse stores**, such as Costco. These stores usually sell a limited number of brands and items, but they often sell them by the case or other large quantities. Warehouse stores typically charge the lowest prices for food.

club warehouse store: store that carries a limited number of brands and items in large quantities and is less expensive than supermarkets

Occasionally, you may want to use a **convenience store**, such as 7-Eleven, for just that reason—because it’s convenient. They are usually open 16 to 24 hours a day, but carry a limited selection of items. The trade-off here is that you may be saving time to buy a few items you need, but you will pay a relatively higher price than you would elsewhere.

convenience store: store open 16 to 24 hours a day, carrying a limited selection of relatively higher-priced items

Although club warehouse stores offer the largest potential savings for your food dollars, there is a trade-off. Most food items come only in relatively large-quantity containers. So you may end up buying a “value-pack” of soups that has 24 cans, for example. Unless your family is large and eats canned soup regularly, you will have unused cans of soup in your cupboard. Therein lies an opportunity cost. You have tied up your funds in an inventory of food. Although the lost interest on those funds may not be great in any single week, it can add up to a significant amount over a several-year period.

In contrast, a large inventory can be a benefit. When you have a relatively well-stocked cupboard of food items, you do not have to return to the store to buy food so often. Thus, you save in time and the costs of transportation.

private-labeled products: lower-priced store-brand products carried by some supermarket chains and club warehouse chains

Brand-Name Products Versus Private-Labeled Products

When you go shopping in virtually any food store, many of the food items have well-known brand names. Some food stores also carry regional brands that are found only in certain areas of the country.

As an alternative to expensive national brands, some big supermarket chains, as well as club warehouse chains, carry their own store-brand products. These are also called **private-labeled products**. According to some consumer surveys, it is possible to save as much as 40 percent by buying store-brand (private-labeled) products. As shown in **Figure 5.2**, you can save even more when you buy generic or bulk items.

FIGURE 5.2

Generic and Bulk Foods

Some food products are available in brand-name, store-label, generic, or bulk form. Generally, price decreases in that order.

What is the difference between private-labeled products and generic products?



The Trade-Off Between Quality, Price, and Quantity

There is often a trade-off between quality and price in the products you buy. A lower-priced generic dishwasher soap might leave a slight film on your drinking glasses, for example, compared to a more expensive national-brand alternative.

Often you will find that the larger the quantity of any item you buy in a supermarket, the lower the per-unit price. Most states require stores to provide unit pricing for food and other products. See **Figure 5.3**. This practice makes it easy to compare prices not only for different brands, but for different sizes of the same brand. For example, the price of milk might be expressed in terms of cents per ounce. You can then tell how much you save per ounce if you buy milk in larger containers.

Cents-Off Coupons Many manufacturers give cents-off coupons. To take advantage of them, a consumer has to buy the brand, size, and quantity named on the coupon. The store then reduces the price paid by the amount printed on the coupon. The manufacturer, in turn, pays that amount to the store.

If you make a habit of using coupons, you can reduce your food bill by more than 10 percent over a one-year period. The use of cents-off coupons, however, requires time—the time to collect and match them to items when shopping. Because time is a scarce resource, you have to decide if the money you save using coupons is worth the time you spend. In addition, coupons tempt you to buy brand-name products you might not otherwise buy—thus *not* saving you money at all.

FIGURE 5.3

Unit Pricing Trying to compare the prices of different amounts of a product—one gallon of Product A versus one half-gallon of Product B—can be confusing. Unit pricing allows you to compare like amounts: ounces to ounces, pounds to pounds, and so on.

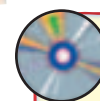


Do Coupons Add Up to Savings?

You have a problem. Spread out on the table in front of you are half a dozen discount coupons for breakfast cereal. The discounts offered range from \$.75 to \$1.50. Which discount coupon will you choose?

The majority of studies of consumer behavior suggest that the answer is simple. The larger the discount, the more likely consumers are to clip and use the coupon. A recent study, however, suggests that the answer may not be so straightforward.

Most subjects in this study seemed to think that the size of the discount was an indication of price. The products featured on coupons offering greater discounts, study subjects felt, probably were very expensive. Consumers, therefore, may *not* clip and use a coupon offering a large discount because they feel it might not result in real savings. ■



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SECTION

1

Assessment

Understanding Key Terms

- 1. Define** club warehouse store, convenience store, private-labeled products.

Reviewing Objectives

- What are the advantages of comparison food shopping?
- 3. Graphic Organizer** Use a diagram like the one below to describe the advantages and



disadvantages of shopping at a club warehouse store.

Applying Economic Concepts

- 4. Trade-Offs** Do you think using cents-off coupons is worth the time spent clipping and matching them to products that you might buy? Why or why not?

Critical Thinking Activity

- 5. Making Comparisons** List your five favorite foods. Then visit five different food stores, or scan food advertisements in newspapers or on television commercials, and compare the prices of your listed items at each store. Explain why you think the stores had similar or different prices for each item.

People & Perspectives



Lloyd Ward

ENTREPRENEUR (1949–)

- **President and chief executive officer of Maytag Corporation, one of North America's leading producers of premium brand home appliances**
- **Named "Executive of the Year" in 1995 by *Black Enterprise Magazine***
- **Ranked among the top 25 business executives of 1998 by *Business Week***

In the 1969–1970 season, Lloyd Ward captained the Michigan State University men's basketball team. His ability to motivate his teammates quickly became apparent. Ward continued to exhibit leadership qualities as he rose through the ranks of the business world. During his time at Maytag, Ward has become known as a team builder. He believes that motivated workers can help to get customers excited about the company's products:

"The focus [at Maytag] before was never disappoint the consumer, satisfy the consumer, be out there with a reliable, dependable product. Now we think of 'wowing' the customer, exceeding their expectations, and providing them with fundamental new benefits they are willing to pay for."

Such a drastic change in approach involves giving up old and familiar ways of doing business. Persuading workers to

adopt new ways, Ward believes, must be undertaken in a positive fashion:

"The challenge within our company is not so much people accepting new ideas as having them forget old ideas. A compelling vision provides a context to let go of tradition and the way things were done before so they can look at new things."

You need to celebrate your failures as much as your successes. Said another way, you need to redefine failure as a learning experience. Everything you do is an opportunity to deepen focus and get better understanding, so you can do significantly better in your next try."

Checking for Understanding

1. What does Ward mean by "wowing" the customer?
2. Why does Ward think that people should celebrate their failures as much as their successes?

Clothing Choices

COVER STORY

BUSINESS WEEK, MAY 7, 2001

Planet Earth now has some 3,750 Gap, Old Navy, and Banana Republic stores. That number grows daily, and by year's end Gap expects over 4,200 stores—a doubling in four years....



[At the Gap,] you'll see teenagers, alone and in groups, spending their parents' money freely. You'll see young women, alone or pushing infants in strollers. You'll see aging baby boomers buying outfits that forgive them their paunches.... Look, and you'll see Gap is now the No. 1 cradle-to-grave clothier.

READER'S GUIDE

Terms to Know

- durability
- service flow

Reading Objectives

1. What three factors determine clothing value?
2. When should you take advantage of clothing sales?

Americans spend about \$400 billion annually on clothing and other personal products. Most people could save considerable income by purchasing only a few very durable pieces of clothing. The clothes, however, would not serve another purpose—variety. In this section, you'll learn that variety, for Americans, is typically the motivating factor involved in clothing choice.

Comparing Clothing Value

Comparison shopping is an important part of buying wisely. Comparing value in clothing means more than simply purchasing an item from the store that offers the best price. Clothing value depends on at least three other factors: style, cost of care, and durability. See **Figure 5.4** on page 118.



Style

We often buy clothing styles that preserve our self-image. Clothing conveys a message to others about what you do, what you believe, and who you are.

FIGURE

5.4

Clothing Value When making clothing purchases, many people want to have different looks for different occasions. Also, people in different climates need different wardrobes for summer and winter.



Cost of Care

Dry-cleaning costs can vary widely, from \$3 per shirt to \$10 for a skirt or sweater.



Durability

When comparison shopping for clothing, you should try to determine how long an item will last and how long you will need it. Then you should compare prices. Suppose you think Coat A will last twice as long as Coat B, and Coat A costs only 20 percent more. Coat A, then, is a better buy.



Style You may be able to buy the minimum amount of clothing you need at a very low cost. You will, however, generally give up style to do it. You are faced with a trade-off. Should you buy stylish clothes each year to keep up with fashion, but then have less money to spend on other items? Or should you buy less stylish clothes, which results in more money to do other things?

Durability The ability of an item to last is known as **durability**. The longer a piece of clothing—or any item—lasts, the more durable it is. When you purchase an item of clothing, you are purchasing it for the service flow that it yields. **Service flow** is the amount of time you get to use a product and the value you place on this use. If you buy a jacket that will last three years and costs \$300, the cost per annual service flow is \$100.

durability: ability of an item to last a long time

service flow: amount of use a person gets from an item over time and the value a person places on this use

Cost of Care The cost of care is another factor in assessing value. Two shirts or blouses may cost the same, but one may require dry cleaning, which is more expensive than hand or machine washing. When deciding on the best choice in a clothing purchase, you must consider maintenance costs.



More for Less

By value shopping, consumers can help themselves in budgeting clothing allowances. It is worth noting, however, that the cost of clothing has decreased significantly over the years. Seventy years ago, a good suit cost about \$40. It took an average consumer almost 80 hours to earn enough income to buy that suit. Today a comparable suit sells for just over \$500, but costs the average worker the equivalent of 40 hours of work. Over the past 100 years, a pair of name-brand jeans has fallen in *work-time cost* by more than half. This means that clothing basics cost much less than they did in the early 1900s. See **Figure 5.5**.

Clothing Sales Although a smaller percentage of one's budget goes to clothing purchases now than in the past, it is still the wise consumer who buys clothing on sale. Because clothing sales are so numerous throughout the year, however, it is easy to become a bargain fanatic—buying sale items just because they are on sale. Before going shopping, make a list of the clothing you require. Having this list along may help you keep your spending within limits. It is wise to determine your wants as well as your realistic needs before shopping at any sale. **Figure 5.6** on page 120 can help you evaluate these wants.



FIGURE 5.5

Work-Time Cost As a percentage of their budget, Americans spend far less on clothing today than in the past—4.8 percent today as compared to 8.4 percent in 1972–73, and 14.1 percent in 1901. A higher proportion of a family's income can be spent on other things such as education or family vacations.

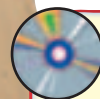


FIGURE 5.6

Checklist for Determining Clothing Wants

In deciding on clothing purchases, ask yourself the following questions:

1. What do I already have? Check the condition of the clothes you have, and see what you want to replace.
2. What clothes do I wish to have for school? For my job? For my social life? For recreational activities?
3. How many changes of clothes do I require to meet my minimum standards for cleanliness, variety, and social status?
4. How do my answers to questions 1 through 3 compare with the amount of income I have to spend?
5. Should I pay cash or charge my purchases? Consider the trade-offs involved in paying cash or using credit.



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SECTION 2

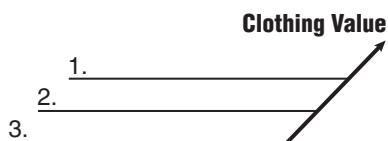
Assessment

Understanding Key Terms

1. **Define** durability, service flow.

Reviewing Objectives

2. **Graphic Organizer** Create a diagram like the one below to describe three factors that determine clothing value.



3. When should you take advantage of clothing sales?

Applying Economic Concepts

4. **Work-Time Cost** Ask your parents or other older adults to remember the cost of a pair of jeans, a jacket, and a pair of tennis shoes when they were teenagers. Then ask them to remember the amount they were paid (by the hour) for any jobs they held as teenagers. Calculate their work-time cost of buying those items.

Critical Thinking Activity

5. **Synthesizing Information** A store advertises jeans at 33 percent off the original price of \$37. What is the sale price? *For help in understanding percentages, see page xix in the Economic Handbook.*

To Rent or to Buy

COVER STORY

THE COLUMBUS DISPATCH, DECEMBER 28, 2002



Motivated by some of the lowest mortgage rates seen in decades, home shoppers turned into buyers and propelled *new-home sales* in November to the

highest monthly level on record. *New-home sales* for 2002 are on track for their best year.

Sales of new single-family homes clocked in at a seasonally adjusted annual rate of 1.07 million in November, representing a 5.7 percent jump from October's level, the Commerce Department reported yesterday.

READER'S GUIDE

Terms to Know

- closing costs
- points
- lease
- security deposit

Reading Objectives

1. What three rules should determine how much you spend for a house?
2. What are the rights and responsibilities of renters?

Some people will save for years in order to buy a small house. Others take out huge mortgages to purchase large homes. Still others are content to rent a house, condo, or apartment most of their lives. In this section, you'll learn about renting versus buying.

Figure 5.7 on page 122 compares the advantages and disadvantages of owning and renting. Wise consumers should consider both when deciding whether to buy or to rent housing.

How Much Should You Spend?

When you decide to buy a house, it is important that you do not take on financial obligations that are beyond your budget. As **Figure 5.8** on page 123 shows, lenders use certain rules to help you determine how much you can afford.



FIGURE 5.7

Advantages and Disadvantages of Owning and Renting

Home Ownership Advantages

- Freedom of use; owners can remodel whenever or however they choose
- Pride of ownership; people tend to take better care of things they own
- Greater privacy
- Usually a good investment that in the past has risen in value as much as, or more than, the general rise in prices
- Significant income tax benefits
- Creation of *equity*, the market value of the property minus the mortgage payments still owed
- Good credit rating if mortgage payments are made on time
- Property to use as collateral for other loans

Home Ownership Disadvantages

- Less mobility, especially in years when interest rates on mortgages are high and housing is difficult to sell
- Moving to another property because the present one is too small, too big, and so on is time-consuming
- Necessity of a large outlay of money for a down payment
- Maintenance costs, real estate taxes, and possible depreciation
- Less money for other purchases because of high monthly mortgage payments
- Possibility of overextending a family's debt load to make home improvements or repairs

Renting Advantages

- Greater mobility; a renter does not have to worry about trying to sell property
- Feeling of freedom to choose another place to live if dissatisfied with current rental unit
- Paying only a small security deposit rather than a large down payment
- No direct maintenance costs, real estate taxes, or depreciation
- Good credit rating if rent is paid on time
- More money for other purchases because monthly rental payments are often less than monthly mortgage payments
- No temptation to overspend on home improvements

Renting Disadvantages

- No freedom of use; renters may not remodel or even paint without the owner's permission
- No return on rental money; a renter will never own the property regardless of how much rent he or she pays, regardless of the length of this period of time
- Few or no tax benefits
- Less privacy
- Little feeling of responsibility for seeing that the property is well taken care of
- No property for use as collateral
- Need to wait for maintenance work at the convenience of the owner

FIGURE 5.8

Lender's Rules It would be unwise for both you and the lender if you spent more than a third of your income on the mortgage. *Why?*

Rule 1 Purchase price ÷ annual income = 2.0 or less

Rule 2 Mortgage payment ÷ monthly take-home income = 33.3 percent or less

Rule 3 Loan amount ÷ appraised value of the house = 95 percent or less (often 80 percent)

In addition to the cash down payment, you will need money for **closing costs**. These are costs involved in arranging for a mortgage or in transferring ownership of the property. Closing costs can include fees for such items as the title search, legal costs, loan application, credit report, house inspections, and taxes. Although the person buying the house usually pays these fees, the seller may agree to pay part or all of them if this will make it easier to sell the house.

closing costs: fees involved in arranging for a mortgage or in transferring ownership of property

In arranging for a mortgage, it is also important to know about points, which are included in closing costs. **Points** are the fees paid to the lender and computed as a percentage of the loan. Each point the lender charges equals 1 percent of the amount borrowed. Lenders charge points—usually one to four—when they believe that the current interest rate is not high enough to pay the expenses involved in handling the mortgage and still make a profit.

points: fees paid to a lender and computed as a percentage of a loan

Purchasing a House

One of the major problems facing today's home buyer is obtaining a mortgage. **Figure 5.9** on page 124 shows several kinds of mortgages that are available.

CLICK HERE

ECONOMICS
Online

Student Web Activity Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 5—Student Web Activities** to compare home prices in your area and around the country.

FIGURE 5.9 Types of Mortgages

Type of Mortgage	Interest Rate Changes	Monthly Payment Changes	Description
Standard Fixed-Rate Mortgage	No	No	Interest rate and monthly payments remain the same over the term of the mortgage—usually 15 to 30 years.
Flexible Rate Mortgage	Yes	Yes	Interest rate and monthly payments float up or down along with interest rates in general. Rates can increase by no more than a few percentage points over the life of a mortgage, whereas there is often no limit on the amount of decrease. Three such plans are variable rate mortgage (VRM), adjustable rate mortgage (ARM), and renegotiable rate mortgage (RRM).
Federal Housing Administration (FHA) Mortgage	No	No	The FHA will insure the entire amount of its mortgages. This added security makes it possible for borrowers to obtain a larger loan than they would with an uninsured mortgage.
Graduated Payment Mortgage (GPM)	No	Yes	Interest rate is usually fixed for the life of the mortgage. Monthly payments are small at the beginning and increase gradually over the years. GPMs are used by people who expect their incomes to increase steadily from year to year.
Veterans Administration (VA) Mortgage	No	No	These loans can be obtained only by qualified veterans or their surviving spouses. The interest rate is generally lower than for other mortgages. The VA guarantees a large percentage of the loan. Loans with no down payment are possible under the VA program.

A mortgage usually involves a down payment and interest. If you buy a house for \$100,000 and make a \$20,000 down payment, you will need to obtain a mortgage for the remaining \$80,000. The mortgage will then be repaid in monthly installments that include interest on the loan. Property taxes, homeowners insurance, and mortgage insurance are often included on your mortgage payment as well.

Renter Rights and Responsibilities

Most renters sign a **lease**, or contract, that contains several clauses. A prospective tenant should read the lease carefully. Most

lease: long-term agreement describing the terms under which property is rented

leases are for one to three years, although sometimes you may pay extra to get a six-month or nine-month lease.

Tenant Rights Among the rights of tenants is the use of the property for the purpose stated in the lease. Tenants also have the right to a certain amount of privacy. A landlord usually cannot enter an apartment anytime he or she chooses. A landlord may enter only to make necessary repairs or to show the apartment to a potential renter.

Tenant Responsibilities In turn, the tenant's responsibilities include paying the rent on time and taking reasonable care of the property. If major repairs, such as replacing a leaky roof, are needed, the tenant is responsible for notifying the landlord.

Often a lease will limit how an apartment can be used. The lease may forbid pets, for example, or forbid anyone other than the person named on the lease from living there. In signing a lease, the tenant is usually required to give the owner a **security deposit**, or money for the owner to hold in case the rent is not paid or the apartment is damaged. The security deposit, usually equal to one month's rent, is returned after the tenant has moved. The amount returned depends on the condition of the apartment, as determined by the landlord. See **Figure 5.10**.

security deposit: money a renter lets an owner hold in case the rent is not paid or an apartment is damaged



CAREERS

Real Estate Agent

Job Description	Qualifications
<ul style="list-style-type: none"> Help home buyers find a house to purchase Help home sellers find a buyer for their property 	<ul style="list-style-type: none"> Knowledge of neighborhoods, local zoning and tax laws, and where to obtain financing High school graduate, licensed real estate agent

Salary: \$27,640

Job Outlook: Below average

—Occupational Outlook Handbook, 2002–03



FIGURE 5.10

Security Deposit To make sure you get your apartment security deposit returned, do an initial “walk through” with the landlord to record any damage that already exists. In addition, take dated photos when you move in and when you leave. *How much are renters usually required to pay as a security deposit?*

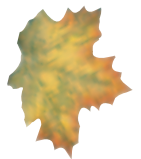




FIGURE 5.11

Checklist for Clauses in Housing Leases

Avoid these types of clauses in leases:

1. **Confession-of-judgment clause:** The lawyer for the rental owner has the right to plead guilty for you in court if the owner thinks his or her rights have been violated. With a confession-of-judgment clause—illegal in some states—you are admitting guilt before committing any act.
2. **Inability-to-sue clause:** You give up your right to sue the owner if you suffer injury or damage through some fault of the owner, such as neglected repair work.
3. **Arbitrary clauses, or those based on one's wishes rather than a rule or law:** The owner has the right to cancel the lease because he or she is dissatisfied with your behavior. An arbitrary clause may
 - forbid hanging pictures.
 - forbid overnight guests (to make sure the apartment is occupied only by the renter).
 - forbid subleasing, or the leasing of the apartment by the tenant to someone else.
 - allow the owner or a representative, such as a plumber, to enter your apartment when you are not home.
 - make you legally responsible for all repairs.
 - make you obey rules that have not yet been written.

If possible, add these clauses to your lease:

1. The appliances that come with the apartment—dishwasher, garbage disposal, and air conditioner, for example.
2. The apartment community facilities you have been promised—recreation room, parking space, swimming pool—and whether you must pay extra for their use.
3. Any other promises made by the owner, such as painting the apartment (and what color).
4. The right to cancel your lease if you are transferred to a job in another city. Usually you must agree to pay a certain amount to do this, which should be stated in the lease.
5. The right to put in lighting fixtures, shelves, and so on, and have them remain your property when you move. Otherwise, they become part of the apartment and you may not take them with you.

The tenant is also required to give *notice*, or a formal warning, if he or she plans to move before the term of the lease is up. In this event, the landlord may ask for several months' rent to pay for any time the apartment is empty before a new tenant moves in.

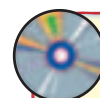
Landlord Responsibilities In many states, landlords must make sure that their apartments have certain minimum services, such as heat, and that they are fit to live in. Landlords may also have to obey building safety laws. For example, fire escapes and smoke detectors may be required. Leases usually call for the landlord to make repairs within a reasonable amount of time. In many states, a tenant has the right to pay for the repairs and withhold that amount of rent if the landlord does not make the repairs. **Figure 5.11** details important items that should not be in your lease or that you should have added to your lease.



Global Economy

Housing in Japan

Land prices in Tokyo and other large cities in Japan are so high that most people feel they cannot buy a home. High land prices also mean that Japanese houses are quite small. On average, a house in Japan has 5 rooms and covers a floor space of about 110 square yards. In comparison, the average American home has 5.5 rooms and some 191 square yards of floor space. Average floor space is even smaller in Japan's cities—only 74 square yards in Tokyo. ■



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key skills with
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SECTION

3

Assessment

Understanding Key Terms

- 1. Define** closing costs, points, lease, security deposit.

Reviewing Objectives

- 2.** What three rules should determine how much you spend on a house?
- 3. Graphic Organizer** Use a chart like the one below to analyze the rights and responsibilities of renters.

Renter Rights	Renter Responsibilities

Applying Economic Concepts

- 4. Demand** Based on the advantages and disadvantages listed in **Figure 5.7** on page 122, do you think you would like to rent or buy a house when you live independently? Explain your choice.

Critical Thinking Activity

- 5. Synthesizing Information** Imagine you are applying for a mortgage. The monthly payment will be \$800, whereas your monthly take-home income is \$1,800. According to **Figure 5.8** on page 123, should the lender grant you the mortgage? Why or why not? *For help in understanding percentages, see page xix in the Economic Handbook.*



CONTENTS





CRITICAL THINKING SKILLS

Finding the Main Idea

Finding the main idea will help you see the “big picture” by organizing information and assessing the most important concepts to remember.

- Find out the setting of the article.
- As you read the material, ask: What is the purpose of this article?
- Skim the material to identify its general subject. Look at headings and subheadings.
- Identify any details that support a larger idea or issue.
- Identify the central issue. Ask: What part of the selection conveys the main idea?

LEARNING THE SKILL

To learn how to find the main idea, follow the steps listed on the left.

PRACTICING THE SKILL

Read the excerpt below, then answer the questions that follow.

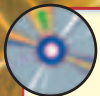
“Car shoppers who rely on the Web have traditionally bought models fresh from the factory. But Internet sales of used cars are on the rise. The Net can help you choose a model, search available inventory, and evaluate specific cars. . . . What’s more, you can find low-mileage luxury cars that have just come off lease—with time remaining on their warranties. And once you’ve settled on your pick, you can apply for financing online.”

—Business Week, August 9, 1999

1. Where did this article appear?
2. When was it written?
3. What was the purpose of this article?
4. What is the main idea of this article?
5. What additional details support the main idea?

APPLICATION ACTIVITY

Bring to class an article that you have found in a newspaper, magazine, or real estate buying guide that deals with home buying or apartment rental hints. Identify the main idea and explain why it is important.



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Buying and Operating a Vehicle

COVER STORY

THE COLUMBUS DISPATCH, MAY 27, 1999

With cars and trucks driving off dealer lots at a fast clip, automakers have decided now is the time to build factories and expand others.

Even with excess capacity at factories that make passenger cars, demand is so great for their highly profitable sport-utility vehicles and pickup trucks that carmakers are willing to risk adding plants to cash in on the good times.



READER'S GUIDE

Terms to Know

- registration fee
- liability insurance

Reading Objectives

1. What are the trade-offs when buying a vehicle?
2. What costs are involved in operating a vehicle?

As with every decision in life, when you decide to buy a particular type of car, you are going to make a trade-off that involves an opportunity cost. Three of the major trade-offs include the following:

- (1) Usually, the smaller the engine, the less gas an automobile burns. This makes a car with a smaller engine less costly to operate, but the car will accelerate less quickly. See **Figure 5.12** on page 130.
- (2) Newer automobiles cost more, but they require fewer repairs than older ones. See **Figure 5.13** on page 131 for tips on choosing a new or used car.

FIGURE 5.12

Trade-Offs Some of the trade-offs you'll make when purchasing an automobile include small car versus large car, new versus used, and powerful engine versus having to buy less gasoline. *What is an advantage of owning a small car?*



- (3)** The smaller the automobile, the more energy efficient it is. In an accident, however, larger automobiles usually protect passengers better.

Buying and Operating a Vehicle

Buying a car involves opportunity costs. One is the amount of money and time spent shopping for the car. Another is the amount of money and time spent in actually purchasing the car. Because of limited resources, most people have to borrow funds to buy a car. The costs of the loan are the down payment, the monthly payments on the principal, and the interest on the loan.

registration fee: *licensing fee, usually annual, paid to a state for the right to use a car*

Registration Fee The owner of an automobile must pay a state licensing fee, or a **registration fee**, to use the car. Usually the fee must be paid annually. In many states, the amount of the fee varies depending on the car's age, weight, type, and value.

Normal Maintenance and Major Repairs The amount of normal maintenance—oil and filter changes and minor tune-ups—depends on the amount the car is driven and how carefully the owner maintains the car. Major repairs are those that are normally unexpected and expensive. They include rebuilding the transmission and replacing the exhaust system. No one can guarantee that an automobile will not require major repairs while you own it, but you can follow certain steps to reduce the probability.

You should check the repair records of different cars before deciding on a particular make and model. If you are considering a used car, you should also take it to a diagnostic center, or have a mechanic check it. Sometimes dealers offer warranties on used cars for a limited time period, such as 30 days, or you can purchase a warranty covering a longer period of time.



FIGURE 5.13

Checklist for Buying an Automobile

These tips will help you in making a good choice of a new car or used car:

1. Ask friends and relatives about their satisfaction or dissatisfaction with their cars.
2. Read articles about different makes and models in car magazines such as *Car and Driver* and *Road & Track*.
3. Read *Consumer Reports* and *Consumers' Research Magazine* for reviews of new automobiles. Carefully read their reports on repair records of different models.
4. Visit dealers and read brochures about their vehicles, keeping in mind that these pamphlets promote the best features.
5. Personally inspect various makes and models in automobile showrooms.
6. Check what is covered by the service warranty. A used car may still be covered under the original manufacturer's warranty. Also, some dealers offer their own limited warranties for used cars.
7. After you decide on a particular make and model, compare the prices offered by several dealers.
8. If you are buying a vehicle off the lot rather than ordering one, check the options—air conditioning, a CD player, special paint, and so on—and their prices. If you do not want any options, the dealer may lower the price.
9. If you are buying a used car, have an automobile diagnostic center or a mechanic not connected with the dealer check it. Add the cost of needed repairs to the dealer's price. This is the real cost of the automobile to you.
10. Make sure the listed price includes federal excise taxes and dealer preparation charges. An *excise tax* is a tax on the manufacture, sale, or use of specific products, such as liquor, gasoline, and automobiles. Dealer preparation charges can include the costs of cleaning, installing certain options, and checking the car's engine before you drive it away. State and local sales taxes will be added to the total cost later.
11. Check various dealers for the reputation of their service departments. Your warranty usually allows you to take your car to any dealer selling that make of car.
12. Do not put a deposit on a car unless you are sure you are going to buy it. You may have a problem getting your deposit back if you change your mind.



FIGURE 5.14

Factors Affecting Automobile Insurance Rates

When you buy automobile insurance, the rate you are charged is determined not only by your age and sex, but also by the following:

1. **The type of car you drive.** Insurance companies consider the safety record of a car and the costs to repair it if it is involved in an accident.
2. **Where you drive.** If the rate of thefts and accidents is high in an area, the risk to the insurance company is greater. A city, for example, would have more thefts and accidents than would a rural area. Therefore, the rate the insurance company charges in a city will be higher.
3. **What you use the car for.** If you drive your car for business on a daily basis, the rate will be higher than if you use it only for errands and occasional trips.
4. **Marital status.** In general, married men and women have lower accident rates than single men and women and, therefore, pay lower insurance rates.
5. **Safety record.** If you have a history of accidents and traffic tickets, then you will be charged a high rate. Whether a new driver has had driver education is often considered in determining a rate.
6. **Number of drivers.** The number of drivers using a car increases the insurance rate.

Extended Warranty One way to guard against having to pay for major repairs is to buy extended warranty coverage. New-car warranties generally protect owners for all major repairs except tune-ups and damage resulting from improper use of the automobile. New-car warranties usually last only a few years, or up to a certain limit of miles or kilometers. These warranties, however, can often be extended for another one, two, or three years by paying additional money when the car is purchased.

Depreciation *Depreciation*—a decline in value over time—takes place as an item wears out or becomes outdated. Age is the major factor. A car loses value every year even if it is not driven because an automobile is a durable good. All durable goods deteriorate, or become worse over time.

Another cause of depreciation is the technology and features of new makes and models. These changes make older models obsolete—out of date and out of style.

The amount of depreciation caused by physical wear and tear varies. It depends on how hard a car is driven, how many miles

or kilometers it is driven, and how well it is maintained. Generally, cars depreciate about 20 percent each year.

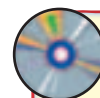
Insurance A major cost of owning an automobile, especially for someone under age 25, is insurance. Many states require that liability insurance be purchased before an automobile can be licensed. **Liability insurance** pays for bodily injury as well as property damage if you are in an accident.

liability insurance: insurance that pays for bodily injury and property damage

Insurance companies classify drivers in various ways, usually according to age, gender, and marital status. Rates depend on the category into which a person fits. The categories, in turn, are based on statistics showing that different types of drivers have different accident rates.

Young people almost always have to pay higher insurance rates. For example, single males in the 16–25 age group have the highest accident rate of all drivers. Not surprisingly, most insurance companies charge these drivers the highest insurance rates. Married women ages 25–45 have the fewest accidents and the lowest rates.

Figure 5.14 shows factors in addition to age and sex that affect insurance rates. Rates cannot vary too widely, however, because states set limits on the rates that companies can charge within state borders.



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SECTION

4

Assessment

Understanding Key Terms

1. **Define** registration fee, liability insurance.

Reviewing Objectives

2. What are the trade-offs when buying a vehicle?
3. **Graphic Organizer** Use a chart like the one below to identify the costs of operating a vehicle.



Applying Economic Concepts

4. **Insurance Risk** Apply the six factors in **Figure 5.14** to your personal driving situation. Are you a risk for insurance companies? Why or why not?

Critical Thinking Activity

5. **Making Comparisons** Search the Internet for information on car insurance in your area. Write an article about the companies that sell insurance and analyze the factors they use in determining what to charge for drivers in your age group.

SPOTLIGHT ON THE ECONOMY

Backseat Driver on the Dash

Check It Out! In this chapter you learned about the costs of owning and operating an automobile. In this article, read to learn about a new option available on some current makes and models.

The most striking thing about Alpine Electronics' computer navigation system for cars is its dead-on accuracy. Using a global-positioning system keyed to satellites and combined with gyroscopic motion sensors, the car knows its position within, at worst, half a city block. This is combined with a map database from Navigation Technologies (NavTech) that knows about details as small as right-turn cutouts at intersections.

When driving, the five-

inch LCD display, which is bright enough to be seen even in strong sunlight, offers a choice between a map view, which can zoom from block-level detail to a city overview, and a diagram of driving instructions. A synthesized female voice warns you of turns, usually with ample time to maneuver safely. The display and

controls are laid out to be informative without being distracting.

NavTech's database divides the U.S. into nine regions. You get one with the unit, and additional ones cost \$150.

Major metropolitan areas have block-by-block detail for all streets. Rural areas and smaller cities offer only major roads.

The only really serious flaw . . . is the cost. The price [\$2,000], whether as an option in a few luxury models or as an aftermarket add-on, is way too steep for most consumers.

Of course, it wasn't long ago that auto CD players—and even antilock brakes—were luxury options, too. With prices likely to slide down the technology cost curve quickly, it's not hard to imagine the day when in-car navigation systems become standard features.

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Think About It

1. Analyze how the computer navigation system for automobiles works.
2. What is the main flaw of this system, and why may that change in the near future?

ECONOMICS
OnlineCLICK HERE

Chapter Overview Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 5—Chapter Overviews** to review chapter information.

SECTION 1 Shopping for Food

- Comparison shopping for food involves making comparisons among brands, sizes, and stores.
- Reading advertisements and collecting cents-off coupons is a timesaving, inexpensive way to comparison shop.
- Supermarkets or **club warehouse stores** usually charge the lowest prices for food, whereas **convenience stores** charge more, but may save you time.
- Per-unit pricing of goods makes it easy to compare prices.
- If you make a habit of using coupons, you can reduce your food bill by more than 10 percent over a one-year period.

SECTION 2 Clothing Choices

- Americans spend about \$400 billion annually on clothing and other personal products.
- Clothing value depends on price, style, **durability**, and cost of care.
- When you purchase an item of clothing, you are purchasing it for the **service flow** that it yields.

- The work-time cost of clothing has decreased over the past 100 years, but it is still the wise consumer who buys clothing on sale.

SECTION 3 To Rent or to Buy

- There are economic and psychological advantages and disadvantages to both owning your own home and renting.
- If you choose to buy a house, you will probably need to obtain a mortgage, which involves a cash down payment, monthly installments, and interest, plus money for **closing costs** and **points**.
- Most renters pay a **security deposit** and sign a **lease** that protects their rights as well as lists their responsibilities.
- Tenant responsibilities include paying the rent on time and taking reasonable care of the property.

SECTION 4 Buying and Operating a Vehicle

- Some of the trade-offs you'll make when purchasing an automobile include small car versus large car, new versus used, and powerful engine versus having to buy less gasoline.
- The costs of operating an automobile include the **registration fee**, normal maintenance, major repairs, depreciation, and **liability insurance**.
- One way to guard against having to pay for major repairs is to buy extended warranty coverage.

Assessment and Activities

Economics Online



CLICK HERE

Self-Check Quiz Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 5—Self-Check Quizzes** to prepare for the Chapter Test.

Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

Column A

1. service flow
2. durability
3. security deposit
4. registration fee
5. liability insurance
6. club warehouse store
7. private-labeled products
8. lease
9. closing costs
10. points

Column B

- a. pays for injury or property damage
- b. stream of benefits from using a good
- c. usually one month's rent left on deposit
- d. how long something lasts
- e. fee charged by lender for paperwork, taxes, and other activities
- f. goods with the store's label on them
- g. large stores requiring a membership
- h. money paid to license a vehicle
- i. agreement describing rental terms
- j. fees paid to a lender, normally when interest rates are low

Recalling Facts and Ideas

Section 1

1. What is one of the best ways to engage in comparison shopping for food products?
2. What is the trade-off involved when you buy a generic brand rather than a brand-name product?

Section 2

3. What four factors influence the kind of clothing choices people make?
4. What is the normal relationship between how long an article of clothing will last and its price?

Section 3

5. What are some of the disadvantages of owning a house?
6. What are some of the disadvantages of renting a house or an apartment?
7. State three responsibilities of landlords.

Section 4

8. If you do not pay cash for a car, what expense must be included in the cost of buying the car?
9. What is included in the cost of operating an automobile?

Thinking Critically

1. **Understanding Cause and Effect** Analyze why automobile insurance companies charge more for unmarried males between the ages of 16 and 25 than they do for married males between these ages.

- 2. Making Comparisons** The two basic types of mortgages used today are flexible rate and fixed rate. Create a chart like the one below to explain the advantages and disadvantages of each.

Type of mortgage	Advantages	Disadvantages

Applying Economic Concepts

Competition and Market Structure Examine the food ads in your local newspaper for one week. List those food items that are common to each ad. Compare the prices from the different food stores for the common items. What is the largest percentage difference between the highest and lowest prices?

Reviewing Skills

Finding the Main Idea In *The Theory of the Leisure Class* (1899), economist Thorstein Veblen criticized the leisure class, or the rich, and its spending habits. He talked about “conspicuous consumption,” which is buying goods and services to impress others.

List examples of conspicuous consumption that you notice throughout the day—whether on television or in real life. Write a paragraph explaining what kinds of products are typically consumed in this way.

Technology Activity



Using the Internet On the Census Bureau Web site, look up the section of the most recent Census of Housing entitled *Selected Housing Characteristics by States and Counties*. Make a table listing the following statistics for your county: (1) number of total housing units; (2) number of units occupied by owners; and (3) number occupied by renters.

Cooperative Learning Project

Organize into six groups. Call separate automobile insurance agents and ask for a rate quote by giving the following facts:

- ☐ Age: 21
- ☐ Gender: at least 3 males and 3 females should make the calls
- ☐ Automobile type: 2000 Chevy Malibu
- ☐ Use: Drive to college and part-time job (80 miles a week)
- ☐ Coverage desired: 100/300/50, which means up to \$100,000 for one person injured in an accident, up to a total of \$300,000 for all personal injuries suffered in the accident, and up to \$50,000 for damages to private or public property caused by the accident
- ☐ Collision and comprehensive deductible: \$500; no medical or towing

After each group receives its quotes, compare your information:

1. Which agent/insurance company gave the highest quote? The lowest?
2. Was there a substantial difference between the insurance rates for females and males?
3. What was the average percentage difference between the rates quoted for females and males?



Analyzing the Global Economy

Use the Internet to find automobile dealerships in major cities around the world. Compare the prices of new and used cars in various cities.



Global *Economy*

A Day on the Town First, you go downtown to meet a friend for lunch. Later, a friend invites you to a movie. On the way to the theater, you stop and buy gasoline for your car. Check the map below to see what your day might cost in various cities around the world.*

Vancouver, Canada

Trolley fare, one way	\$ 1.90
Lunch, per person	7.05
Gasoline, one gallon	1.70
Movie ticket	6.47

Chicago, U.S.A.

Subway fare, one way	\$ 1.50
Lunch, per person	8.74
Gasoline, one gallon	1.36
Movie ticket	6.29

Rio de Janeiro, Brazil

Subway fare, one way	\$ 0.28
Lunch, per person	13.58
Gasoline, one gallon	2.08
Movie ticket	8.11

*All prices have been converted to U.S. \$.



◀ **CONTENTS** ▶



Berlin, Germany

Subway fare, one way	\$ 2.60
Lunch, per person	11.76
Gasoline, one gallon	3.86
Movie ticket	6.35

Moscow, Russia

Subway fare, one way	\$ 0.22
Lunch, per person	22.70
Gasoline, one gallon	1.59
Movie ticket	7.63

Mumbai, India

Subway fare, one way	\$ 0.10
Lunch, per person	7.53
Gasoline, one gallon	2.16
Movie ticket	1.07

Johannesburg, South Africa

Subway fare, one way	\$ 0.85
Lunch, per person	10.14
Gasoline, one gallon	1.93
Movie ticket	7.78

Tokyo, Japan

Subway fare, one way	\$ 1.60
Lunch, per person	20.16
Gasoline, one gallon	4.58
Movie ticket	20.00

Sydney, Australia

Subway fare, one way	\$ 1.79
Lunch, per person	9.88
Gasoline, one gallon	2.16
Movie ticket	8.23

Thinking Globally

1. In which city would your day on the town cost the most? The least?
2. Look at the prices for Mumbai. How do you think most people get around the city—by car or by public transportation? Why?