

# Quick Start Guide

## Case Study: First Car

**Topic:** insurance

*Things you own  
end up owning you.*

–Tyler Durden (Brad Pitt) in *Fight Club*

### Introduction

For many young adults, the purchase of their first car can be a celebratory occasion symbolizing freedom and entrance into adulthood. No longer dependent on others for transportation, a teenager likely thinks they are *finally* free—free of parental dependence and free to pursue their own interests. Teenagers are *literally* in the driver’s seat.



by Andy Singer

This case introduces the complexities of decision making, specifically in terms of assets that require continued long-term financial investment. And like most decisions, the choices presented here are multifaceted and have consequences, both positive and negative. However, this case is not about helping students figure out the *one* correct answer. There is no *one* answer. Instead, this case is about weighing options, considering long-term consequences, and helping students make the right decision for *them*, based on their own unique set of preferences.

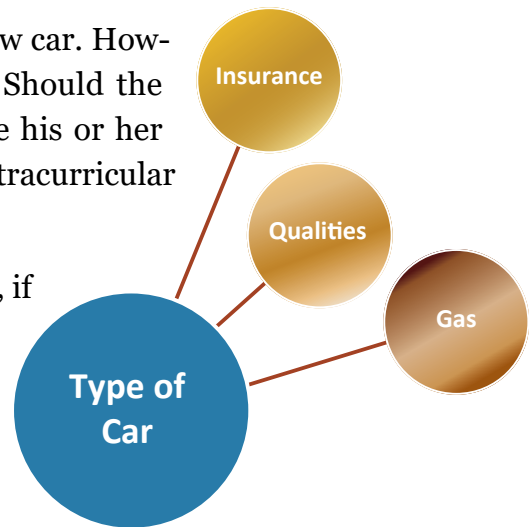
Helping students make well-informed decisions is a life-long skill, and arguably one of the most important. As students grow older, the choices they encounter will only get more complicated and the consequences more severe (at least for poor decisions).

This case will help provide a foundation for helping students consider the breadth of outcomes accompanying decisions, especially those with financial considerations, and to facilitate decision making that is well-informed and aligned with a student's long-term goals.

### Dilemma

A 16-year-old has the opportunity to get a brand new car. However, the teenager must pay for all related costs. Should the teenager accept? How should the teenager allocate his or her resources (e.g., wages, hours of studying, time for extracurricular activities)?

- What car or type of car should the teenager select, if a car is chosen at all? Why or why not?
- If a car was selected, how much insurance coverage should the teenager get?
- What other considerations, if any, are missing from the case?



### What Students Will Learn

This case introduces students to the concept of insurance, including deductibles and premiums. Students will assess multiple options to arrive at a decision that supports either their short- or long-term goals. Students will also consider the costs and benefits of car ownership.

### Problem-Solving Skills

- To conceptualize and engage with a hypothetical case study as a true problem, not one that fits neatly into, and illustrates, a preordained solution
- To identify a student's own preferences and goals
- To evaluate one's own risk and determine the costs and benefits of their self-evaluation
- To consider both short- and long-term outcomes when making investment decisions

## Related Financial Literacy Concepts

**Deductible:** “The amount you have to pay out-of-pocket for expenses before the insurance company will cover the remaining costs.”<sup>1</sup> Typically, the lower the deductible on an insurance policy, the higher the premium. Essentially, the deductible provides information to the insurance company about what types of damage an owner may fix on their own (e.g., small scratches, dents) versus what the driver will submit to an insurance company to pay. For example, a driver with a \$0 deductible might submit claims for even the smallest repairs; thus, the insurance company would increase the premium to cover the increased likelihood of claim submissions.

**Premium:** An insurance premium is a dollar amount paid to an insurance company for coverage. The amount of the premium will depend on many different factors, including the value of the car being insured, the age and gender of the primary driver, and the number of claims previously made by the driver. Insurance companies may also utilize a person’s zip code, level of education, and even marital status to determine premiums. Insurance companies have found certain characteristics are indicative of different risk profiles and charge accordingly. The premium will also be based on the level of coverage (i.e., the maximum amount paid by the insurance company for repairs) and the amount of the deductible.

**Resource allocation:** Every person possesses some basket or bundle of goods, which they can allocate in many different ways. Example resources include wages, skills, and time. In the case of a teenager, time may be the most valuable resource, especially because time may be allocated to studying and improving educational attainment. Many different studies have confirmed the benefits of obtaining a postsecondary degree on lifetime earnings. The calculations from these studies include the cost of foregoing wages (lost wages from studying instead of working). Interestingly, an individual’s resource allocation decision may be conscious or unconscious. For example, if a family purchases a large house with a large yard, they are also choosing to allocate a portion of their time and/or a portion of their salary to maintain the property. Thus, the true costs of the house extend beyond the mortgage, property taxes, and utilities.

<sup>1</sup> <http://www.investopedia.com/terms/d/deductible.asp>

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## *In the Classroom . . .*

### **1 HOMEWORK**

Assign the case study for homework. Tell students that in order to be completely familiar with the facts of the case they should read it twice: once to get an overview of the case and then a second time to make note of the facts that seem most important. Ask students to put themselves in the dilemma presented and think about what they would do.

### **2 AS A WHOLE CLASS**

**Agree on a detailed understanding of the facts.** As an entire class, first ask students to recap what they consider to be the key facts of the case so everyone has a shared understanding. Clarify definitions necessary for understanding the case, in particular *deductible* and *premium*.

**What do you notice?** Encourage students to raise important questions, but steer them away from jumping to solutions before they have had a chance to fully examine all of the issues at hand and perhaps even do more research on possible alternatives. Attempt to draw out the major factors that should be considered when choosing a car (or not choosing a car). If necessary, ask students to complete the following sentence: “The real question is . . .”.

### **3 GROUP ACTIVITY**

Break students into groups of about 4–6 based on grouping strategies you normally use. Orally or on the board, give them directions to do the following as a group:

- First, consider what questions need to be answered in order to select a car (or not to choose a car). As a group, make a comprehensive list of what they need to know and where they can find the information. Encourage students to consider costs or benefits not mentioned in the case.

- Second, scan the list of resources to determine which ones would be most valuable to answer the questions the group has and give them more information to understand the decisions that need to be made. Divide the resources so that each individual or pair has a small set of resources to examine to gather information to answer the group’s questions.

## 4 PAIRED RESEARCH

Students should now be divided into pairs. The pairs will examine each resource so they can first come to their own understanding and then confer with a partner to confirm their understanding. For each resource, students should identify relevant information and evidence that answers their questions. They should also consider the credibility of the information and of the resource itself, examining the source of the information, any potential sources of bias, and how well the resource defends the information it provides.

Still in pairs, students should work to complete the deductible/premium organizer provided at the end of this guide. Emphasize that the completed example is just an example. Students may arrive at different mileage estimations or experiment with different deductible amounts. The final three blank spaces on the student handout version are for students to price out other cars, including used cars, to develop a full spectrum of options.

*Example of completed organizer:*

Car Type	MPG	Est. Annual Miles Driven	Deductible Cost	Premium Cost	Premium + Gas Costs
BMW	28	5,000	\$0	\$7,800	\$8,448
			\$250	\$5,200	\$5,848
			\$1,000	\$3,900	\$4,548
Porsche	22		\$0	\$8,400	
			\$250	\$5,600	
			\$1,000	\$4,200	
Dodge	23		\$250	\$4,700	
			\$500	\$3,995	
			\$1,000	\$3,525	
Cadillac	25		\$250	\$4,200	
			\$1,000	\$3,150	
			\$5,000	\$1,680	

## 5 CLASS DISCUSSION

As a whole class, provide an opportunity for a few different pairs to share out the decisions they made. Attempt to identify the full spectrum of decisions students made.

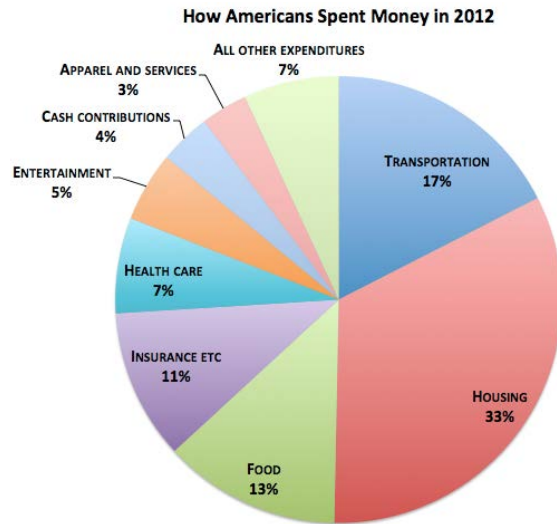
## 6 CLOSURE

Have students reflect back on the opening quote and cartoon. Besides a car, have students think about what other purchases are made over the course of one's life—both big and small—and how they might approach those decisions in the future.

The following are some fun facts to consider with respect to this conversation.

- In 2006, Americans spent \$40 billion on lawn care.<sup>2</sup>
- In 2007, Americans spent \$18 billion on credit card late fees.<sup>3</sup>

Also see “How America Spends Money” from *The Atlantic* (reporting data from the Bureau of Labor Statistics).<sup>4</sup>



<sup>2</sup> <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=atWbvXyV3vVk>

<sup>3</sup> <http://www.today.com/id/28004124/ns/today-money/t/scout-out-hidden-fees-save-hundreds/>

<sup>4</sup> <http://www.theatlantic.com/business/archive/2012/04/how-america-spends-money-100-years-in-the-life-of-the-family-budget/255475/>

## COMPLICATING FACTORS

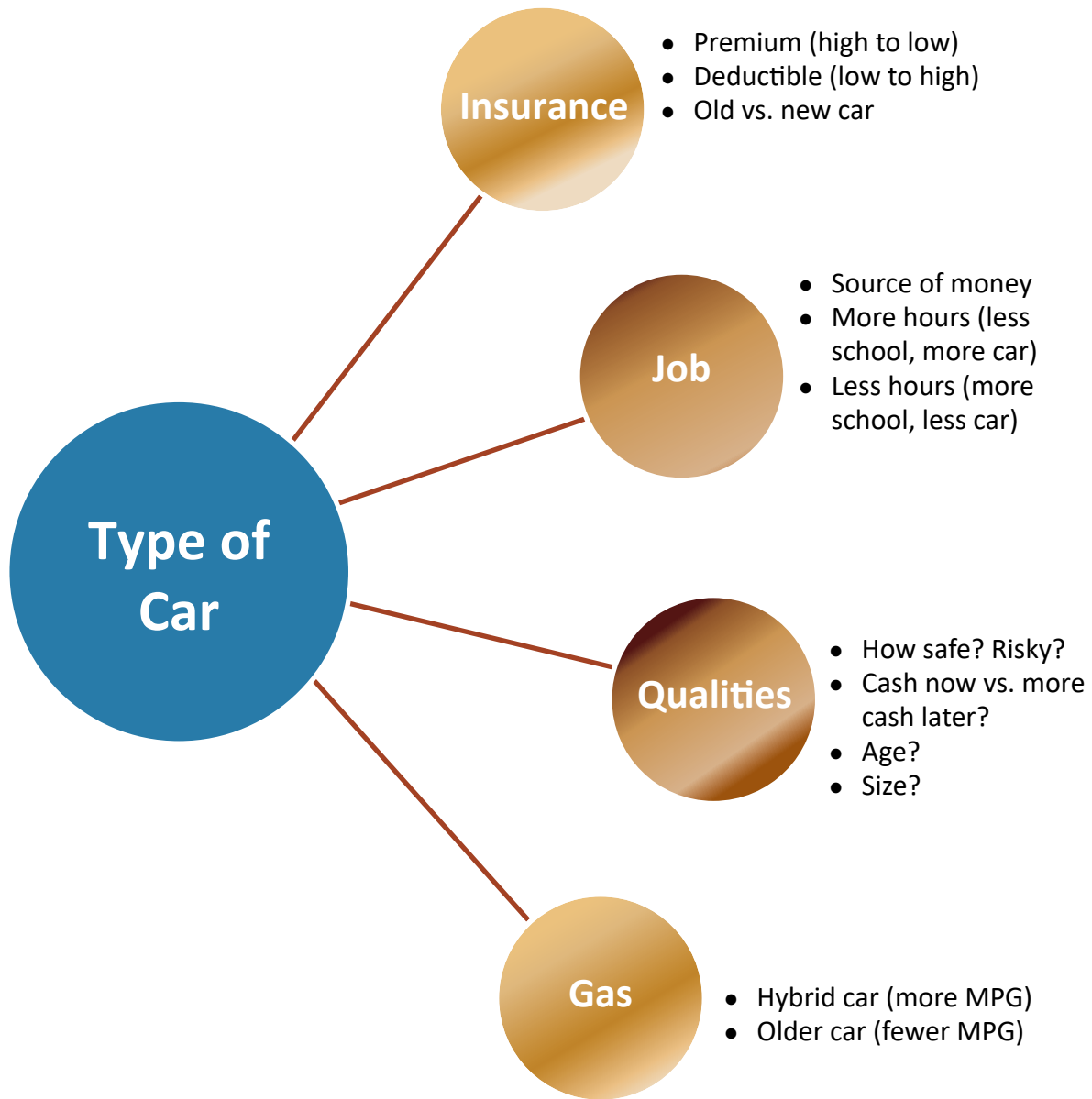
At the teacher’s discretion or when some students appear ahead of others, inquire what, if anything, might be missing from the cost analysis. For example, no mention has been made about upkeep (e.g., oil changes, tires, cleaning) or other costs, such as parking or annual environmental inspections (if applicable). Inquire if any students thought about the potential benefits of specific cars. Who knows—maybe students could decide on a truck and then utilize it to generate revenue (e.g., helping people move, delivering firewood, or starting a lawn care business). These additional complicating factors may also be brought up in the final group discussion.

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## Extension

Encourage students to talk with adults or family members about how they budget their income. How do their expenses compare to those in the pie chart on the previous page? Most students will likely find that those they ask are not able to determine how their income is allocated. What lesson(s) does that provide? What might a household do differently if it knows how its own pie chart looks?

Completed Dilemma Map





Organizer

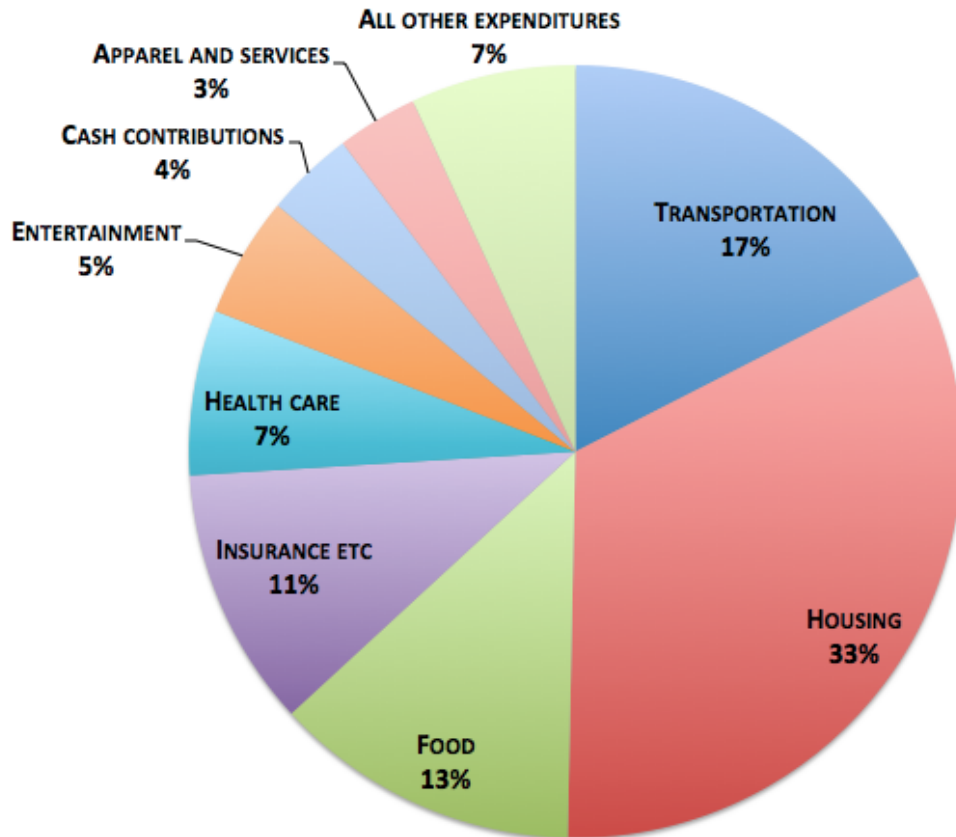
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*Drive to Work/Work to Drive*



by Andy Singer

*How Americans Spent Money in 2012*



<http://www.theatlantic.com/business/archive/2013/09/where-americans-rich-and-poor-spent-every-dollar-in-2012/279727/>