PROJECT: MAKING A LARGE PURCHASE

Sometimes, deciding how you will pay for a large purchase is easy. For example, if you were buying a car and you didn't have enough cash, you would get a car loan. However, sometimes the decision is a little more difficult. For example, if you were adding a deck onto the back of your house, how would you pay for the supplies? Would you use your credit card, get a home equity loan, or take a personal loan? When the decision is more difficult, it is smart to use the PACED decision-making process. In this project, you will use the decision-making process to help two people, Emmitt and Carmen, make a decision about how to pay for two large purchases.

PURCHASE ONE

Read the following scenario. Research options for payment, and use the PACED decision-making model to decide how Emmitt should pay for the television. Remember, the PACED steps are to define the problem, list the alternatives, select criteria, evaluate the alternatives, and make a decision.

Scenario:

Emmitt wants to buy a new flat screen television. The cost of the television is $539.

A) He has a credit card with a credit limit of $1,000 and an APR of 22 percent.
B) The store offers him store credit with six months no interest and an APR of 22 percent. This means if he pays the balance in the first six months, he doesn't pay any interest. If he doesn't pay off the balance in the first six months, then he starts paying 22 percent interest on the balance that's left. Since he just paid off his car loan, he can afford to pay $100 each month. This means it would be possible for him to pay the balance within six months.
C) He also has a great credit score and could obtain a personal loan.

Remember, the goal is to find the most cost-effective option for purchasing the TV.

How should Emmitt pay for the television?

PURCHASE TWO

Scenario:

Carmen is in the process of buying a car. She knows she needs a car loan, but she is unsure about which financial institution she should obtain the car loan from. Should she take out a loan with a loan period of four years? Five years? Six years? She has $3,000 for the down payment, and the cost of the car after tax and license fees will be $8,500. She has a credit score of 620. Her budget will allow her to make payments as high as $150 per month. Remember, the goal is to find the most cost-effective option.

Helpful Link: Search “auto loan calculator” in Google. Use the calculator at the top of the results list to fill in the blanks for payment and the total cost of the loan below.

Loan	APR	Length of Loan	Total Financed	Payment	Total Cost of Loan
Loan 1	**3.47%**	**4 years (48 months)**			
Loan 2	**4.28%**	**5 years (60 months)**			
Loan 3	**6.3%**	**6 years (72 months)**			

Which car loan should Carmen choose?

Why?