



CONSUMER MATHEMATICS 7

TRANSPORTATION

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TRANSPORTATION

Americans are the most travel-oriented people in the world. When all the means of transportation are lumped together—cars, trucks, trains, planes, barges, highways, railways, and canals, the investment in transportation amounts to over \$500 billion. This investment is about \$2,000 for every man, woman, and child in this country.

We are so dependent upon the vast transportation network that spans our continent, that if this network were to cease suddenly, our economy would grind to a virtual halt. Essential goods depend on transportation to get to consumers, and workers depend on transportation to get them to their jobs. The transportation industry employs over 5 million workers in this country. Over 110 million automobiles

are owned by people in the United States. These figures should give you some idea of the relative importance of transportation to our lives.

In this LIFEPAAC you will learn how transportation affects the consumer in terms of costs and benefits. You will be given examples of how to figure the costs of owning and operating an automobile, how to compare insurance rates, and how to figure the relative efficiency of certain kinds of transportation. You will also learn some useful tips for traveling abroad, including how to exchange foreign currency, how to estimate travel costs, and how to figure duties one must pay on articles brought back to the United States.

OBJECTIVES

Read these objectives. The objectives tell you what you will be able to do when you have successfully completed this LIFEPAAC.

When you have finished this LIFEPAAC, you should be able

1. To compute the cost of financing an automobile;
2. To compute operating costs of an automobile;
3. To make comparisons among types of automobile insurance coverage;
4. To work time, distance, and rate problems;
5. To adjust time based on time zones;
6. To calculate currency-exchange rates; and
7. To make cost-benefit comparisons with regard to travel.

Survey the LIFEPAAC. Ask yourself some questions about this study. Write your questions here.

I. FINANCING AND OPERATING AN AUTOMOBILE

OBJECTIVES

1. To compute the cost of financing an automobile.
2. To compute operating costs of an automobile.
3. To make comparisons among types of automobile insurance coverage.

Few automobile drivers understand the actual costs of owning and operating their cars. Most people think that the cost of an automobile is the sticker price displayed on the car window as it sits in the showroom or on the dealer lot. However, since very few people pay cash for a car, they often pay twice as much money for the car because of the interest charges on the financing contract.

Financing and operating a car are just part of the economics picture. Operating your car includes much more than putting in gas and occasionally a quart of oil. Maintenance costs including repairs and parts, *depreciation*, and insurance add up to significant cash outlays over the period of ownership.

FINANCE CHARGES

When a person buys an automobile, he must pay an interest charge along with the price of the car. The buyer can pay a sum of money, called a *down payment*, before the total cost of the car is figured to lower the interest amount and total cost of the car. This section explains how to figure the true annual interest rate and other figures related to buying a car.

PROCEDURE

To determine the rate of interest charged to finance an automobile, complete these steps: (1) Find the product of twice the number of payments in one year (y) and the amount of interest charged over the full contract period (c) and (2) divide the resultant from Step 1. by the product of the unpaid balance (cash price - down payment) (m) and the number of payments to be made over the contract period plus 1 ($n + 1$).

$$I = \frac{2yc}{m(n+1)}$$
 where I is the true annual interest rate, y is the number of payments in one year, c is the amount of interest charges, m is the amount of unpaid balance, and n is the number of payments made.

Model 1: You wish to buy a new Toyota. The dealer tells you the price is \$5,050 complete, with license and taxes included. You want to put down \$500 in down payment. You agree to finance the balance through a finance company that quotes your payments over four years as \$165 per month. What is the true annual interest rate?

$$\begin{aligned} c &= (\text{amount of} \\ &\quad \text{monthly payments})(\text{number of months}) - \text{unpaid balance} \\ &= (\text{monthly payment})(n) - m \\ &= \$165 \times 48 - (\$5,050 - \$500) \\ &= \$7,920 - \$4,550 = \$3,370 \end{aligned}$$

$$\begin{aligned} I &= \frac{2(12)(3,370)}{4,550(48 + 1)} \\ &= \frac{80,880}{222,950} = 36\% \end{aligned}$$

Model 2: You are financing the payment for a used car. The dealer says he will sell you the car for \$2,995 after a \$295 down payment. He also says you can finance the balance at an $8\frac{1}{2}\%$ true annual interest rate and that your payments will be \$85.50 per month for 36 months. Is the dealer correct in quoting $8\frac{1}{2}\%$ as the interest rate?

$$c = \$85.50 \times 36 - (\$2,995 - \$295) \\ = \$3,078 - \$2,700 = \$378$$

$$I = \frac{2(12)(378)}{2,700(36 + 1)} \\ = \frac{9,072}{99,900} = 9.1\%$$

The answer is no, since 9.1% is greater than $8\frac{1}{2}\%$.

Model 3: Purchase price of car is \$2,500. No down payment. The contract calls for a 10% true annual interest rate and monthly payments over a 24-month period. What is the amount of monthly payment?

$$10\% = \frac{2(12)c}{2,500(24 + 1)} \\ 24c = (0.10)(2,500)(25) \\ 24c = 6,250 \\ c = \$260.42$$

Since the amount of monthly payment equals the balance of payments plus interest charges divided by the total number of payments, the amount of monthly payment

$$= \frac{2,500 + 260.42}{24} = \$115.02.$$

Compute the following interest-rate problems.

- 1.1 Purchase price of car = \$4,250
 Amount of down payment = \$700
 Number of payments made in year = 12
 Number of payments made over contract period = 24
 Amount of monthly payment = \$178.25
 True annual interest rate?
-

1.2 Purchase price of car = \$6,650
Amount of trade-in value = \$2,000
Number of payments made in year = 12
Number of payments made = 36
Amount of monthly payment = \$198.75
True annual interest rate?

1.3 Purchase price of car = \$3,875
Amount of down payment = \$385
Number of payments made in year = 12
Number of payments made = 30
True annual interest rate = 12%
Amount of monthly payment?

1.4 Purchase price of car = \$5,200
Amount of down payment = \$550
Number of payments made in year = 12
Number of payments made = 42
True annual interest rate = 20%
Amount of monthly payment?

1.5 You price a new car. The cost is \$6,995. Your credit union quotes you a 9% true annual interest rate for financing. You wish to pay off the loan in 48 payments and want to keep the car payment at \$155 per month. How large a down payment must you make to meet these conditions?
(Hint: Since $c = \$155 \times 48 - m$, substitute this expression for c into the true annual interest rate formula and solve the problem accordingly.)

1.6 True annual interest rate = 18.5%
Interest charges = \$681.51
Number of monthly payments = 30
Total amount financed?

AUTOMOBILE OPERATING COSTS

Automobile operating costs include such things as gas; oil; repairs; parts; maintenance; depreciation; insurance; and taxes, both Federal and state. We shall assume that the price of gas and oil includes taxes.

PROCEDURE

To calculate gas and oil charges as a cost per mile driven, divide the amount spent on gas and oil by the number of miles driven.

Model 1: Your total gas and oil charges for the year amount to \$1,080. You estimate that you drove 14,000 miles during the year. What is the cost in cents per mile for gas and oil?

$$\text{Cost} = \frac{\$1,080}{14,000} = 0.077, \text{ or } 7.7\text{¢ per mile}$$

Model 2: Your automobile gets about 16 miles to the gallon. You drive 16,000 miles. If the cost at the pump is \$1.10 per gallon, and you also paid for 10 quarts of oil at \$1.75 per quart, what is the cost of gas and oil per mile?

$$\text{Gallons purchased} = \frac{16,000}{16} = 1,000$$

$$\text{Cost of gas} = 1,000 \times 1.10 = \$1100.00$$

$$\text{Cost of oil} = 10 \times \$1.75 = \$17.50$$

$$\text{Total cost of gas and oil} = \$1100.00 + \$17.50 = 1117.50$$

$$\text{Cost of gas and oil} = \frac{\$1117.50}{16,000} = 0.07 \text{ or } 7\text{¢ per mile.}$$

PROCEDURE

To determine the cost per mile for repairs, parts, and maintenance, divide the total cost of these items by the number of miles driven.

Model 1: You determine that you paid \$48.50 for parts, \$250 in repair bills not covered by insurance, and \$178 in service costs during the past year. Your odometer shows that you drove the car 15,000 miles during the year. What is the cost per mile for these operating costs?

Parts =	\$ 48.50
Repairs =	250.00
Servicing	178.00
(maintenance)=	<u> </u>
Total =	\$476.50

Operating costs = $\frac{\$476.50}{15,000} = 0.0318$, or 3.2¢ per mile.

Model 2: Repairs = \$480
 Parts = \$275
 Maintenance = \$360
 Miles driven = 18,500
 Operating costs?

Total cost of operating
 costs listed = \$480 + \$275 + \$360
 = \$1,115

Operating costs = $\frac{\$1,115}{18,500} = 0.06$, or 6¢ per mile.

DEFINITION

Depreciation is a lessening, or lowering, in value of an asset based upon its age.

Now that we know what depreciation is, we shall learn how to determine its cost relative to the automobile. The loss in value is the difference in the original value of the automobile and the resale or salvage value at the time the automobile is traded or scrapped.

PROCEDURE

To determine the cost of depreciation per mile driven:
(1) Subtract the estimated trade-in or salvage value from the original cost of the automobile; (2) divide the resulting loss in value by the number of years of use to get the average yearly depreciation; and (3) divide the average yearly depreciation by the average number of miles driven to obtain the depreciation cost per mile driven.

Model 1: You purchased a car five years ago for \$3,400. You trade it in for \$350 on a new car. If you averaged 20,000 miles of driving per year, what was the cost of depreciation per mile driven?

$$\text{Total depreciation} = \$3,400 - \$350 = \$3,050$$

$$\text{Average yearly depreciation} = \frac{\$3,050}{5} = \$610$$

$$\text{Cost of depreciation} = \frac{\$610}{20,000} = 0.03, \text{ or } 3\text{¢ per mile.}$$

Model 2: You drive a Mercury for 8 years and sell it for \$50 to a salvage company. It originally cost you \$2,450 new. The odometer registered 92,000 miles when you scrapped the car. What was the cost of depreciation per mile driven?

$$\text{Total depreciation} = \$2,450 - \$50 = \$2,400$$

$$\text{Cost of depreciation} = \frac{\$2,400}{92,000} = 0.026, \text{ or } 2.6\text{¢ per mile.}$$

Work the following automobile-operating costs problems.

1.7 Gas and oil costs = \$1,200
Miles driven = 12,500
Cost per mile?

1.8 Gas and oil costs = \$1,024
Cost per mile = 8¢
Miles driven?

- 1.9 Gas mileage = 15.5 miles per gallon
Miles driven = 14,500
Price of gasoline = 66.9¢ per gallon
Cost of oil used = \$8.75
Cost per mile for gas and oil?
-
- 1.10 Cost of repairs = \$225
Cost of parts = \$165
Cost of maintenance = \$312
Miles driven = 17,500
Cost per mile?
-
- 1.11 Cost of repairs = \$55
Cost of parts = \$3.50
Average cost of maintenance = \$8.50 per month
Miles driven = 13,000
Cost per mile?
-
- 1.12 Cost of repairs = \$0
Cost of parts = \$165
Cost of maintenance = \$155
Cost per mile = 3.2¢
Miles driven?
-
- 1.13 Purchase price = \$5,750
Market value at resale = \$3,250
Years driven = 4
Average number of miles driven per year = 16,025
Cost of depreciation per mile?
-
- 1.14 Purchase price of automobile = \$3,850
Salvage value = \$150
Years driven = 9
Average number of miles driven per year = 18,000
Cost of depreciation per mile driven?
-

- 1.15 Purchase price of automobile = \$6,600
Resale value = \$3,900
Years driven = 3
Cost of depreciation per mile driven = 9¢
Average number of miles driven per year?
-
- 1.16 Purchase price of automobile = \$7,885
Years driven = 5
Cost of depreciation per mile driven = 8.5¢
Average number of miles driven per year = 15,000
Resale value?
-

(Hint: First find the average depreciation per year by multiplying the average miles driven by the cost of depreciation per mile driven. Then substitute the resulting figure into the formula for computing depreciation per year to find the resale value.)

INSURANCE COST COMPARISONS

Insurance rates are high, to be sure. This cost is partly because of the high number of car accidents. Statistics show that almost every driver in this country will have been in an automobile accident within ten years of driving.

Other reasons for rising insurance rates are higher costs of repairs and medical services due to inflation, larger judgments awarded by courts in settling *liability* suits, and legal fees and overhead costs that amount to 56 cents out of every \$1 paid for insurance.

Buying appropriate coverage is not an easy task. The different types of coverage that are offered, the discounts that are given to certain categories of drivers, and the varying state requirements all tend to confuse the average automobile owner in his search for adequate protection.

The careful and patient automobile owner, however, can cut down on the cost of insurance by shopping around and comparing the premiums charged by different companies. Premiums for the same coverage can vary as much as 285%. Even though such a variance is an extreme case, the figure cited is officially documented by the Illinois State Department of Insurance.

The reason for so many forms of coverage is the nature of the automobile. An automobile can cause a variety of risks to its owner. It can be a source of liability for the owner and the operator; it may be damaged or destroyed by act of malice, or stolen, and it can cause the driver or his passenger to be killed or injured.

Let us examine the basic types of insurance coverage offered.

Two types of liability insurance are provided and, in many states, are compulsory. The first liability insurance is bodily injury coverage.

DEFINITION

Bodily injury insurance offers protection covering injury to other passengers during an accident involving the policy holder's vehicle. Minimum coverage is \$10,000 for one person, with a maximum of \$20,000 paid out if more than one person is injured.

Another form of liability insurance is property damage coverage.

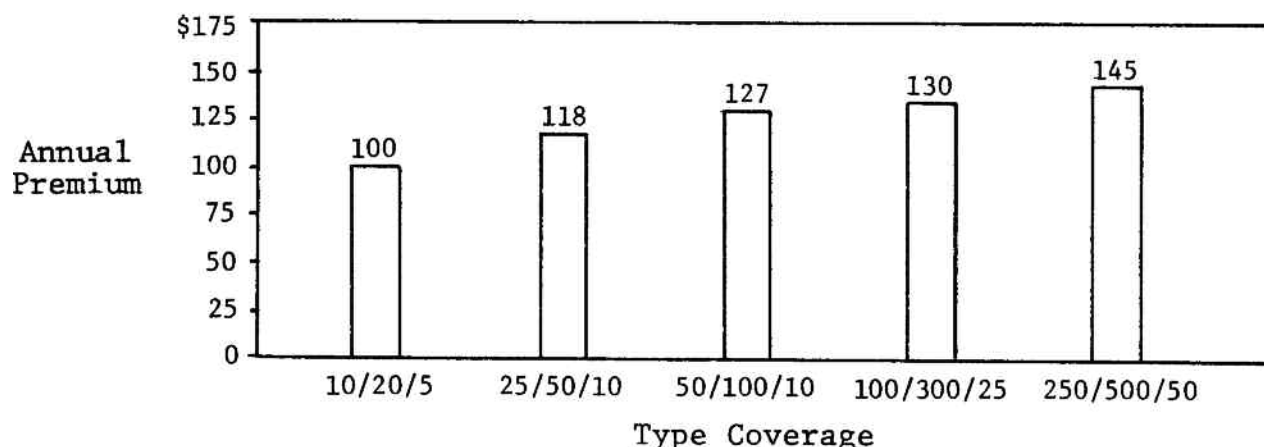
DEFINITION

Property damage insurance offers protection against losses incurred to property belonging to persons other than the policy holder. The usual amount of coverage is \$5,000.

Most policies combine liability coverage in a form of shorthand: for example, 10/20/5. The 10 stands for a \$10,000 maximum that the insurance company will pay for injuries suffered by any one person. The 20 stands for a maximum of \$20,000 that the insurance company will pay if more than one person is injured. The 5 represents a maximum of \$5,000 that the insurance company will pay for damages to another car or to valuable property.

We indicated previously that 10/20/5 was the minimum coverage for liability insurance. Because of the reasons cited earlier, a policy holder is wiser as well as more economical to increase liability coverage to at least 100/300/25. The economy of this increase can be proved by the following graph.

REPRESENTATIVE LIABILITY COVERAGE RATES



Model 1: How much more bodily injury coverage will one person receive by increasing the liability premium from \$100 to \$130 (an increase of 30%)?

At \$100 premium the bodily injury coverage is \$10,000 for one person. At \$130 premium, the coverage increases to \$100,000.

$$\begin{aligned} \text{Increase in coverage} &= \frac{\$100,000 - \$10,000}{\$10,000} \\ &= 900\% \end{aligned}$$

Model 2: For an increase of \$27 from the basic rate in premium, the insured can get an increase of \$5,000 in property damage coverage. What are the comparative percentage changes?

$$\begin{aligned}\text{Percentage change in premium} &= \frac{\$127 - \$100}{\$100} \\ &= 27\%.\end{aligned}$$

$$\begin{aligned}\text{Percentage change in coverage} &= \frac{\$10,000 - \$5,000}{\$5,000} \\ &= 100\%\end{aligned}$$

Comprehensive insurance protects the policy holder from a great variety of unfortunate accidents that can occur while the car is not moving.

DEFINITION

Comprehensive coverage provides protection against fire, theft, acts of malice, vandalism, and acts of nature. In other words, it provides coverage for all damages that are not the result of an accident that occurs while the automobile is moving.

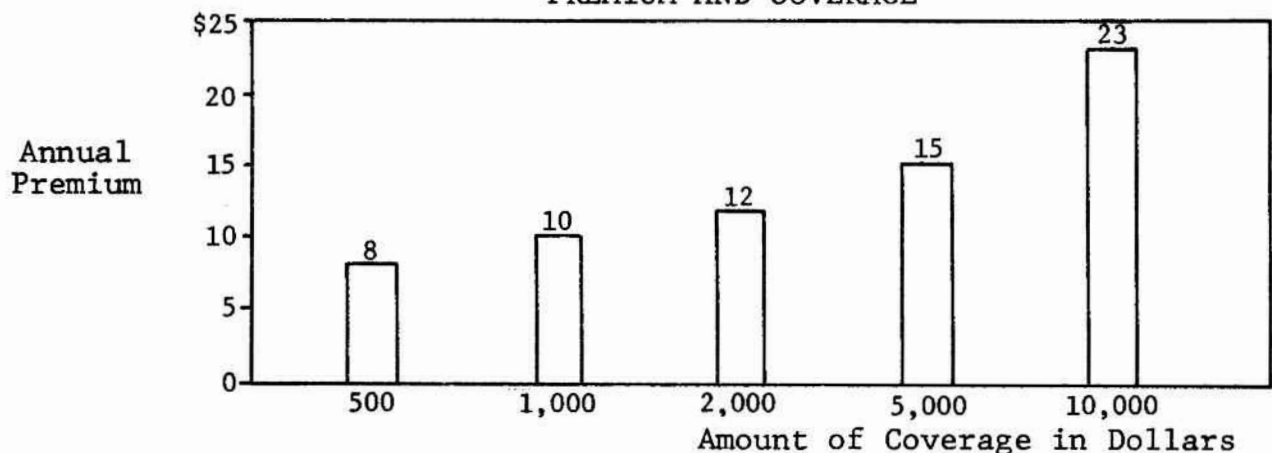
Medical-payments insurance pays for medical and burial expenses, regardless of who is at fault in an accident.

DEFINITION

Medical-payments coverage provides for the insured person and all passengers for medical costs that might result from an accident. The normal coverage is \$2,000 for each person.

As with other forms of coverage, medical-payments premiums provide higher coverage at proportionally less cost.

TYPICAL MEDICAL PAYMENTS:
PREMIUM AND COVERAGE



Model 1: What is the increase in dollars in the amount of payments covered by increasing the premium from \$8 a year to \$15 a year?

\$15 premium coverage = \$5,000
\$ 8 premium coverage = - 500
Amount of increase = \$4,500

Model 2: The percentage increase in coverage made by increasing the premium rate from \$8 to \$12 (a 50% increase) turns out to be 300% (\$500 to \$2,000 for amount of coverage). What is the percentage increase made by increasing a \$10 premium to a \$15 premium (which is also a 50% increase)?

$$\text{Increase in coverage} = \frac{\$5,000 - \$1,000}{\$1,000} = 400\%$$

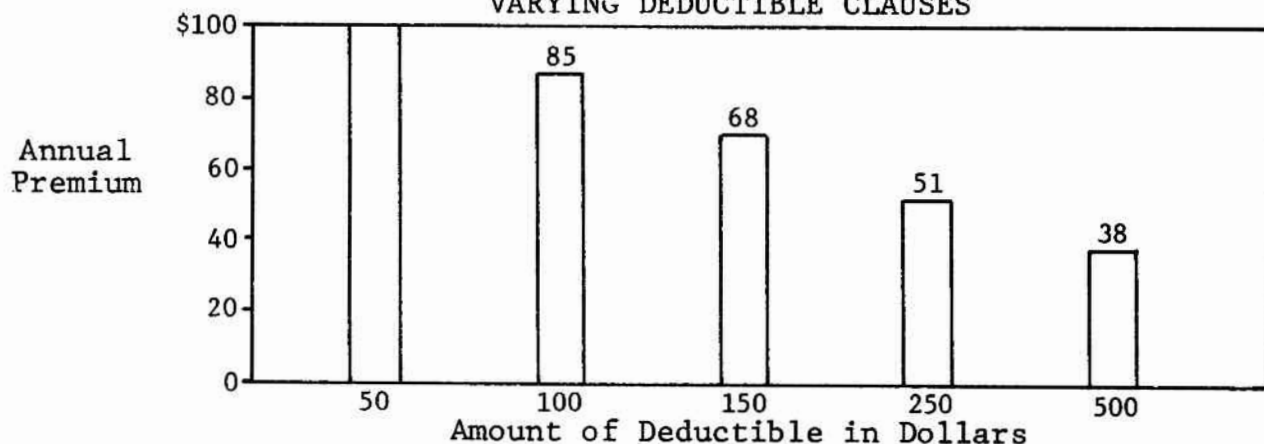
Another important category of insurance coverage is collision coverage, which applies regardless of who is to blame for the accident.

DEFINITION

Collision coverage provides protection for the owner's automobile against the risk of damages resulting from an accident. It is offered only with a deductible clause.

Most policies have a *deductible clause*, which means that the insured person is responsible for a stated amount (usually \$50 or \$100) of any loss that is covered that might occur. The insurance company pays the balance of the loss based on the market value of the car. The higher the deductible amount, the less cost to the insured person for collision coverage.

TYPICAL COLLISION RATES FOR
VARYING DEDUCTIBLE CLAUSES



Model 1: What percentage increase in premium do you pay for collision coverage by decreasing the deductible clause from \$500 to \$100?

Premium for \$500 deductible = \$38

Premium for \$100 deductible = \$85

$$\text{Increase} = \frac{\$85 - \$38}{\$38} = 124\%$$

Model 2: You are considering changing from a \$50-deductible collision coverage to a \$250-deductible collision coverage. What are the comparative changes in premiums and deductibles?

$$\text{Change in premiums} = \frac{\$100 - \$51}{\$100} = 49\% \text{ less}$$

$$\begin{aligned} \text{Change in deductible coverages} &= \frac{\$250 - \$50}{\$50} \\ &= 400\% \text{ more} \end{aligned}$$

The final category of coverage that will be discussed is the uninsured-motorist coverage. Approximately 15% of all drivers carry no insurance, which should give you an idea of the importance of carrying this kind of insurance.

DEFINITION

Uninsured-motorist coverage provides protection against three types of risk: (1) Motorists who are not insured, (2) hit and run accidents, and (3) accidents caused by drivers of stolen cars. The amount of coverage is usually \$15,000 per person and \$30,000 per accident.

Only eight states offer uninsured-motorist coverage for property damage as well as bodily injury. The maximum payout is limited by the individual state's financial responsibility law. Coverage limits normally vary from 10/20 to 25/50, or from \$10,000 to \$25,000 maximum paid for each person injured and from \$20,000 to \$50,000 for each accident's total injury liability. The premium rates usually run from \$4 to \$8 per year, which make this type of coverage a bargain.

Based on the previous tables, work the following insurance-coverage problems.

1.17 Type of coverage = liability
Amount of coverage = 50/100/10
Cost of annual premium?

1.18 Type of coverage = liability
Amount of coverage = 250/500/50
Cost of annual premium?

1.19 From your answers in Problems 1.17 and 1.18,
what is the percentage increase in premiums?

1.20 From your answers in Problems 1.17 and 1.18,
what is the percentage increase in liability
coverage for

a. total bodily injury?

b. property damage?

1.21 Type coverage = collision
Amount of coverage = \$50 deductible
Cost of annual premium?

1.22 Type coverage = collision
Amount of coverage = \$150 deductible
Cost of annual premium?

1.23 Based on your answers in Problems 1.21 and 1.22,
what is the percentage decrease in premium payments?

1.24 Based on your answers in Problems 1.21 and 1.22,
what percentage increase occurs in the deductible
amount?

1.25 Type coverage = medical payments
Amount of coverage = \$5,000 per person
Amount of premium?

- 1.26 Type coverage = medical payments
Amount of coverage = \$1,000 per person
Amount of premium? _____
- 1.27 Type coverage = medical payments
Amount of coverage = \$10,000 per person
Amount of premium? _____
- 1.28 Based on your answers to Problems 1.25, 1.26, and
1.27, how much does the premium increase in dollars
from the lowest coverage to the highest coverage? _____
- 1.29 Based on your answer in Problem 1.28, what is the
percentage increase
a. in premiums? _____
b. in coverage? _____
-



Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

SELF TEST 1

Work the following interest-rate problems (each answer, 4 points).

- 1.01 Purchase price of car = \$6,785
Number of payments made in year = 12
Number of payments made = 48
Amount of monthly payment = \$205
True annual interest rate? _____

1.02 Purchase price of car = \$4,500
Amount of down payment = \$450
Number of payments made in year = 12
Number of payments made = 28
Amount of monthly payment = \$165
True annual interest rate?

1.03 Price of automobile = \$6,800
Amount of down payment = \$700
Number of payments made in year = 12
Amount of monthly payment = \$168
True annual interest rate = 15.8%
Number of payments?

1.04 Price of automobile = \$11,500
Down payment = \$1,150
Number of payments made in year = 12
Number of payments made = 44
True annual interest rate = 19.2%
Amount of monthly payment?

Work the following automobile-operating cost problems (each answer, 4 points).

1.05 Gas and oil costs = \$1,000
Miles driven = 10,000
Cost per mile?

1.06 Gas and oil costs = \$1,750
Cost per mile = 9.5¢
Miles driven?

1.07 Miles driven = 20,000
Cost per mile = 11¢
Gas and oil costs?

- 1.08 Cost of repairs = \$550
 Cost of parts = \$125
 Cost of maintenance = \$120
 Miles driven = 14,000
 Cost per mile?
-
- 1.09 Cost of repairs = \$150
 Cost of parts = \$85
 Cost of maintenance = \$125
 Cost per mile = 4.5¢
 Miles driven?
-
- 1.010 Cost of gas and oil = \$1,950
 Cost of repairs, parts, and maintenance = \$1,200
 Amount of depreciation = \$900
 Annual insurance premium = \$240
 Miles driven = 17,000
 Operating costs per mile?
-
- 1.011 Cost of gas and oil = \$1,200
 Cost of repairs, parts, and maintenance = \$1,000
 Amount of depreciation = \$850
 Annual insurance premium = \$250
 Miles driven = 18,000
 Operating costs per mile?
-
- 1.012 Purchase price of automobile = \$4,500
 Market value of car = \$1,850
 Years driven = 6
 Average miles driven per year = 15,000
 Cost of depreciation per mile?
-
- 1.013 Purchase price of automobile = \$5,700
 Market value at resale = \$3,700
 Years driven = 4
 Cost of depreciation per mile = 4¢
 Average miles driven per year?
-

- 1.014 Purchase price of automobile = \$6,100
 Salvage value = \$200
 Years driven = 10
 Average miles driven per year = 16,000
 Cost of depreciation per mile?
-

- 1.015 Purchase price of automobile = \$3,995
 Years driven = 4
 Cost of depreciation per mile = 3¢
 Average miles driven per year = 14,125
 Market value at resale?
-

Work the following automobile-insurance problems (each answer, 4 points).

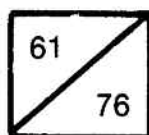
- 1.016 Policy A Costs \$250 per year. Policy B costs \$365 per year. Policy A provides liability coverage of 20/40/5. Policy B provides liability coverage of 40/80/10. No other difference exists between the two policies. What is the percentage increase in premiums from policy A to policy B (policy B doubles the liability coverage of policy A)?
-

- 1.017 If Policy C provides a \$50-deductible clause for collision insurance for \$35, and a \$100-deductible clause for collision insurance for \$45, what is the percentage increase in premium rate for the \$100 deductible?
-

- 1.018 Two different policies giving the same coverage are shown in the following table. Which policy is less expensive?

<u>Coverage</u>	<u>Policy A Premium</u>	<u>Policy B Premium</u>
Liability 100/300/50	\$135.00	\$145.00
Comprehensive (actual cash value)	75.00	71.00
Collision (\$100 deductible)	68.00	62.00
Medical payments (\$2,500 per person)	17.50	14.50
Uninsured motorist (\$12,500 per person and \$25,000 per accident)	7.00	8.40

1.019 Based on your calculations in Problem 1.018, how much difference in annual premiums exists between policy *A* and policy *B*?



Score _____
Teacher check  _____
Initial Date