FINANCIAL LITERACY

LESSON 10-25 ▲ PURCHASING

**LEARNING GOALS/OUTCOMES**

* Learn about researching, financing, purchasing, and insuring a major purchase.
* Use consumer reports and reviews to assist in product purchasing.
* Investigate the financial options available for purchasing a major item.
* Ask effective questions to determine how or if to insure a new purchase.

**MATERIALS NEEDED**

* **Student Handouts:**
* Product Research and Financing Worksheet
* Sample Consumer Research – Introduction
* Journal Page

**CLASSROOM ACTIVITIES**

1. **Students dream up a big purchase.** Tell students that they will be learning about making a major purchase. Let them spend a minute thinking about a major purchase they would like to make: something they could not afford without significant savings or a loan. It could be a car, a bicycle, a motorbike, a musical instrument, a computer, or art or sports equipment. Tell them their idea can be just a dream, something they’d like even if they don’t think they’ll be able to purchase it this year. After a minute, ask each student to share his or her dream purchase.
2. **Students brainstorm how to make a major purchase.** Once each student has commented, ask them what they think they must do in order to make their purchase wisely. Students might say that they need to be clear on what they want, find out what the item will cost, save money or work with their families to get a loan, or research products and brands before deciding exactly what to purchase. Write their ideas on the board and discuss how students can make wise decisions about buying a major item.
3. **Students demonstrate how to identify and select a major item for purchase.** Distribute the *Product Research and Financing Worksheet*. Ask each student to write what he or she would like to purchase in the top space on the handout. Ask each individual to discuss and fill in the next box: why they want to make this purchase.
4. **Divide students into groups of three or four.** Ask each student to quickly review with their group what they are buying and why they want to buy it. The group should then work one product at a time to answer where it can be purchased and for how much. Students should try to identify at least four different sources of information, such as local stores, Internet stores, specialty shops, Craigslist, etc. Explain to students that if they are planning to make a major purchase they are wise to spend time doing research first. Part of that research is learning where to purchase the item and learning how much it will cost.
5. **Students identify how to find product reviews and consumer research to assist them in purchasing a product.**  Tell students the story of a person who buys a new phone and signs up for a two-year phone plan only to find that the phone doesn’t have the features they want and won’t load their music. Ask students for examples of when they bought something and were disappointed.
6. **Tell students that to avoid these types of problems in the future they need to do some product research before they buy.** Explain that there are many easy ways to research a product and learn about its features, as well as any problems people have reported. There are sites such as Consumer Reports ([www.consumerreports.org](http://www.consumerreports.org), product reviews require a subscription but product buying guides are free and useful) or CNET for technology products ([www.cnet.com](http://www.cnet.com)) in which experts review and rate different products and brands. There are also many sites on which ordinary consumers rate the products they have purchased. Most Internet stores now have a product rating section for each product they sell and these can be a great source of information.
7. **Provide each student with a copy of the *Sample Consumer Research – Introduction* Handout.** Ask students to read the excerpt quietly in their groups, and individually identify three types of products they would like to research. After a few minutes, ask students to discuss the types of products they would research. Ask groups to identify the top three values of doing consumer research prior to a purchase. Encourage students to see that careful research, (1) allows a person to find the product that best fits their unique needs, (2) prevents people from paying too much for what they need, and (3) helps people identify high-quality products and brands.
8. **Students determine how to investigate the financing options available for purchasing a major item.** Explain that there are two basic ways that people pay for a major purchase: they pay from their savings or they take a loan to purchase the product. One type of loan is to use store financing. Give students the following example.

You want to buy a tablet computer. It costs $599 if you pay cash for it today. However, you do not have $599 today; you have $150. The store tells you that you can have the computer for $150 and take it home today, if you agree to make 12 monthly payments of $60 to pay off what you owe.

Ask students to calculate what it would cost them to get the computer right now if they did not have enough money to pay in full. (They would pay $720 over the next year, much more than the remaining $449 they would owe.) Ask for a show of hands: how many students would get the computer today for $150 plus another $720 paid over the next year ($870 total)? How many students would wait until they had saved the $599? Discuss the advantages and disadvantages of each choice.

Ask students to list on their handouts whether they would wait to purchase their dream item until they have saved enough money to pay cash or whether they think it is important enough to have that item now that they would be willing to pay extra to borrow money. Ask them to write a short explanation of their choice next to the How Will I Pay? section on the handout.
9. **Students ask effective questions to determine how or if to insure the new purchase.** Explain that a major purchase might come with (or need) a warranty to cover any repair needs. In addition, it may need to be insured.

Explain to students that a warranty will cover repairs if their product breaks or malfunctions. Teach students to ask the following four questions. In groups, have one student pretend to be a cell phone seller while another asks the four questions.

* Is this a full or limited warranty?
(A full warranty covers all repairs in a defined period of time, while a limited warranty only covers specific problems.)
* How long will the warranty last?
(Some products come with a set warranty period and offer the chance to buy more warranty.)
* Is there a replacement clause?
(If they can’t repair it, do you get a new product?)
* Does getting a warranty add to the purchase price? If so, how much does it cost?

In terms of insurance, explain to students that some purchases, such as cars, require insurance. Other major purchases, such as musical instruments or expensive computers, may need a special insurance policy or may need to be added on to the family’s homeowner’s or renter’s insurance policy. In addition, students might want to purchase theft insurance for an item such as a laptop, a smart phone, or bike. If they are buying an expensive product, they might want to talk with their family about whether the family’s insurance policy will cover their new purchase.

Ask the student groups to look at the final question on their handouts and discuss how they could learn about the insurance or warranty needs for their purchase. They might write that they could ask their parents, talk with their family’s insurance agent, or research insurance options on the Internet.

1. **Students reflect on how they could be wise consumers.** Ask each student to use a *Journal Page* to answer these questions:
* How effectively have I made purchases in the past?
* How can I apply what I learned today to “purchasing” a college education?

**STUDENT PRODUCTS**

* **Completed *Product Research and Financing Worksheet***
* **Completed *Journal Page*** on how students can make wise decisions on major purchases

FINANCIAL LITERACY

LESSON 10-25 STUDENT HANDOUT

 PRODUCT RESEARCH & FINANCING WORKSHEET

Think of a major purchase you would like to make. It might be a car, a motorbike or bicycle, a musical instrument, a computer, or major arts or sports equipment. Your purchase should be something that you will need to save or borrow money to buy.

|  |  |
| --- | --- |
| **What I would like to buy:** |  |
| **Why do I want to purchase this item?**(Define exactly what you are looking for in this product.) |  |
| **Where will I find it and what will it cost?**(List at least four stores or web sites where you could compare prices. If you could purchase the item directly from another person – such as a used car – list how you could identify an item and find the price.) |  |
| **Where can I learn more about this item?** (List at least four specific sources for expert advice or product reviews: web sites, magazines, store sites, etc.) |  |
| **How will I pay – and why?**(Write out whether you will wait and try to pay for your purchase in full, or whether you need the item right now and are willing to pay extra to borrow the money. Briefly explain why.) |  |
| **Will my purchase come with a warranty?** **Will it need to be insured?** (Explain how you can learn about insurance or warranty needs.) |  |

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LESSON 10-25 STUDENT HANDOUT

 SAMPLE CONSUMER RESEARCH – INTRODUCTION

Consumer research can provide buyers with product-specific buying guides, as well as reviews of specific products and brands. When purchasing any product, a buyer is wise to do research. Here is an excerpt from an imaginary Buyer’s Guide for cell phones.

**TABLE OF CONTENTS**

* Introduction
* Types of Cell Phones
* Cell Phone Features
* Brands of Cell Phones
* Specific Cell Phone Reviews
* Shopping Tips

**INTRODUCTION**

It is not easy to purchase a cellular phone. There are many new features and apps (application programs) that are available through today’s cell phones. Being clear about how you intend to use your phone will help you analyze the many choices now available. You don’t want to pay more for features you’ll never use!

Your first decision when buying a phone is what type you want: a conventional cell phone or a ‘smart’ phone. A conventional cell phone offers voice services and text messaging. A few other features may also be included, such as a camera or space to store music or pictures. Smart phones offer those same services and much more. A smart phone can include Internet access, e-mail access, digital time management tools, contact management tools, and more space to store music and pictures. Most significantly, a smart phone has access to hundreds of thousands of apps that enable the buyer to play games, watch videos, find restaurants, track finances, manage flights, obtain weather reports, and access the latest news. Check out our “Types of Cell Phones” section for more details.

Your second decision is choosing your cellular provider. All the major providers use one of two different digital networks. Code Division Multiple Access (CDMA) technology is used by Verizon and Sprint, while the Global System for Mobile communications (GSM) is used by AT&T and T-Mobile. There are many opinions regarding which system is better. Each network has strengths and weaknesses, so it is important to choose the network that best supports the way you intend to use your phone. These phone services are discussed in our “Brands of Cell Phones” section.

Your next step is to choose the phone you will purchase. Cell phones come in all shapes, sizes, and colors, so you’ll want to find the one that best represents the way you plan to use your phone. Some phones fold while others hold their shape, making them quick to access features. Be sure to go to a phone store and hold different types of phones to see what suits your needs. Check the display to see if it is visible in bright settings, the keyboard to make sure you can actually type on it, and the battery life so your phone can handle a day of heavy use without losing power.

Prices for a conventional cell phone will range from free (if you sign up for a two-year plan) to $200 (without a commitment to a provider). Smart phones cost considerably more, starting around $400. Read our “Specific Cell Phone Reviews” section to help you with your choice.

**Name three types of products you’d like to research.**

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LESSON 10-25 STUDENT HANDOUT

 JOURNAL PAGE

**DATE:**

**Lesson 10-25 | *PURCHASING***

***Q1:*** How effectively have I made purchases in the past?

***Q2:*** How can I apply what I learned today to “purchasing” a college education?

***Answers:***