Having a new car is exciting, but buying a car can gut wrenching. Preparation is your greatest tool.

At some point you are going to want a car. The question is… How much are you going to pay for that car?
Lesson Objective

Students will learn the vocabulary related to buying a car and how to calculate the price of a car.
Vocabulary

**Allotment**: How many cars the dealership gets from the manufacturer in a given period of time. AKA: Dealer Allocation

**Asking Price**: The price the seller of the car posts when advertising the car.

**Base Price**: The retail cost of the car before any options are added on.

**Book Value**: The price the car typically sells for. This can be found through Kelley Blue Book, NADA guide, and other sources. AKA: Blue Book
Vocabulary

**Commission**: The amount of income the salesperson makes because they sell a vehicle.

**Dealer Invoice Price**: The price the dealer pays to buy the car from the manufacturer.

**Destination Charge**: The additional transportation cost to get the car to your location. AKA: Delivery Charge

**Incentives**: This is anything offered to car buyers, from the car manufacturer, to get them to buy the car.
**Vocabulary**

**MSRP:** “Manufacturers Suggested Retail Price” is the price the manufacturer is suggesting the vehicle be sold for.

AKA: Sticker Price, Monroney, List Price, Sticker, or Retail Price.

**Option Packages:** A package of extra options that the manufacturers will put together at a reduced price.

**Private Party Value:** The average price the vehicle sells for when not being sold through a dealership.
Retail: This is the price the dealer says the car is worth, and what you might pay if you don’t know how to negotiate when buying a car.

AKA: List Price

Trade–In Value: The average price the dealership will give you for your old car when you buy a new car through them.
Buying a Car: At the Dealership

Every car on the lot has many different prices associated with it. Let’s look at how this works.

The dealer buys a Ford Taurus from the manufacturer...

He paid the Dealer Invoice Price (DIP) of $24,480.
Buying a Car: At the Dealership

The dealer than puts the car on his lot and puts a price on it. He chooses to use the MSRP of $26,350.

Now if he can sale it for that price, the dealership will make...

\[
\text{26,350 MSRP} - \text{24,480 DIP} = \text{1,870 Profit}
\]
Cost of Upgrades

Now the dealer wants to put a truck on his lot. The lowest base price for a Dodge Ram Pickup with only the standard options is: $30,178.

But he doesn’t want just a basic model so he decides to add some features.
### Cost of Upgrade Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Retail– Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Price</td>
<td>$ 30,178</td>
</tr>
<tr>
<td>Exterior Color: Blue</td>
<td>$ 191</td>
</tr>
<tr>
<td>Four-Wheel Drive, 8 Ft Bed</td>
<td>$ 3,063</td>
</tr>
<tr>
<td>Turbo Diesel Engine, 6.7 Liter</td>
<td>$ 6,473</td>
</tr>
<tr>
<td>Speed Control</td>
<td>$ 213</td>
</tr>
<tr>
<td>Spray In Bed Liner</td>
<td>$ 383</td>
</tr>
<tr>
<td>Heater</td>
<td>$ 77</td>
</tr>
<tr>
<td>Off Road Tires</td>
<td>$ 85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 40,663</strong></td>
</tr>
</tbody>
</table>
Cost of Upgrades

Sometimes the manufacturer will offer Option Packages for cheaper than you can buy the parts individually.

For Example:

The manufacturer offers a “Cold Weather Package” which includes the heater and a Winter Front Grille Cover for the same price as the heater alone.
Price of the Car: At the Dealership

With all the upgraded options, this truck will now cost the dealer: \( \$40,663 \). He puts it on his lot and decides to list it a little above MSRP. He is going to post it at the Retail (List Price) of: \( \$44,538 \).

If he can sale it for that price, the dealership will make...

\[
\text{\$44,538 List} - \text{\$40,663 DIP} = \text{\$3,875 Profit}
\]
Buying a Car

If you went to the dealer’s lot tomorrow and fell in love with that truck would you be able to pay cash for it? Probably not.

After all, $44,538 is a lot of money. But what you could manage is $600 a month. Could you still buy the truck if you got a loan?

And would you be smart if you did? Why or why not?

We’ll talk more about this in the next presentation.
Review:

1. What does MSRP stand for?

2. What is the Retail Price?
Review:

1. What does MSRP stand for?
   Manufacturer’s Suggested Retail Price
   The price the manufacturer suggests the vehicle be sold at.

2. What is the Retail Price?
   The price the dealer says the vehicle is worth, and what you might pay if you don’t know how to negotiate when buying a car.