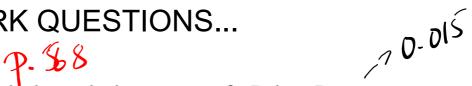
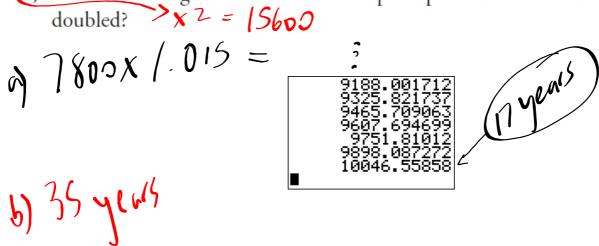
HOMEWORK QUESTIONS...



- 5. Susie purchased a limited edition print of a Robert Bateman painting for \$7800. Bateman's prints appreciate, on average (1.5% annually. a) How long will Susie need to keep the print until its value exceeds \$10 000?
 - (b) About how long will Susie need to keep the print until its value has doubled? $\times 2 = 15600$



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10. A company has spent \$70 000 for car rentals over 2 years. The company's financial officer wants to determine if the company should continue to rent or if it should buy or lease two vehicles instead.

• A new car costs \$32 000. A 5% down payment is required. The rest can be financed at 3.6%, compounded monthly, for 2 years. Assume depreciation of 40% a year and monthly payments.

A 2-year lease for a car requires a down payment of \$2000 and monthly payments of \$770.

a) Determine the costs of each option: renting, buying, and leasing.

b) Recommend a course of action for the company. Justify your

recommendation.

Down Payment -> 5% of 32000 0.05 x 32000. Payment

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Rent 2 Volicles

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New 32000*0.6 19200 Ans*0.6 11520 Ans*2

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EXAMPLE 3 p. 562 Solving a problem that involves leasing or buying a water heater

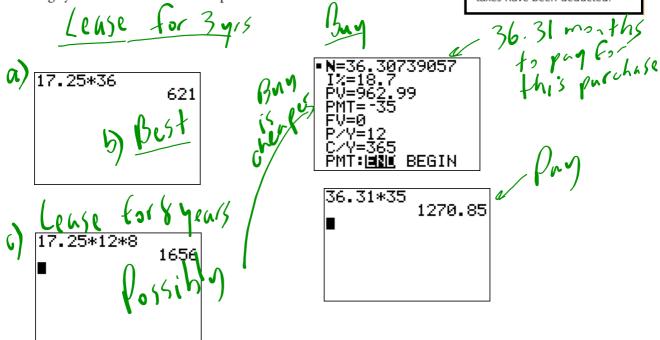
The 10-year-old hot water heater in Tom's home stopped working, so he needs a new one. Tom works for minimum wage. After paying his monthly expenses, he has \$35 **disposable income** left. He has an unused credit card that charges 18.7%, compounded daily. He has two options:

- Tom could lease from his utility company for \$17.25 per month. This would include parts and service.
- He could buy a water heater for \$712.99, plus an installation fee of \$250, using his credit card. He could afford to pay no more than \$35 each month.
- a) What costs are associated with buying and leasing?
- b) What do you recommend for Tom? Justify your recommendation.
- c) Suppose that the life expectancy of a water heater is 8 years. Would this change your recommendation? Explain.



disposable income

The amount of income that someone has available to spend after all regular expenses and taxes have been deducted.



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In Summary

Key Ideas

- When deciding whether to rent, buy (with or without financing), or lease, each situation is unique. A cost and benefit analysis should take everything into account.
 - Costs include initial costs and fees, short-term costs, long-term costs, disposable income, the cost of financing, depreciation and appreciation, penalties for breaking contracts, and equity.
 - Benefits include convenience, commitments, flexibility, and personal needs or wants, such as how often you want to buy a new car.
- Since each situation is unique, it is impossible to generalize about whether renting, leasing, or buying is best.

Need to Know

- When renting, leasing, and buying, you often need to make payments up front. Some payments go toward the overall cost, such as a down payment on a house or a lease deposit and the first and last month's rent. Other deposits, such as a rental damage deposit, are refunded at a later date.
- Appreciation and depreciation affect the value of a piece of property and should be considered when making decisions about renting, buying, or leasing, based on the particular situation. They are usually expressed as a rate per annum.
- Equity can make buying a house a form of investment.

HOMEWORK...

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