

Warm- up Algebra Review pg 227 1-4





### Objectives



- Merchants generate credit income and attract customers with special credit plans.
- Calculate total financed price with lowerthan-market-rate interest and rebate plans.
- Determine the merchants' profits with lower-than-market-rate interest and rebate plans.
- Observe the drawbacks associated with rent-toown plans.

- 1. Cash discount:
  - A lower price offered to a customer who pays cash instead of using credit
- Since stores have to pay credit card companies 4-7% of the purchase price of each item they sell on credit.

- 1. Cash discount:
- They cannot add extra charges to credit card purchases to cover their credit card expense.

 What is one way retailers limit their credit card expense?

### **Examples of Cash Discounts**



#### STUDIO SAMPLE AND OVERSTOCK



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"The next few days are critical. We're going to slowly reintroduce her to cash."

- 2. Rent-to-own plan:
  - Purchase expensive items now and pay for them with small payments over a specified period of time.
- This is often more expensive then financing the item.

- 2. Rent-to-own plan:
- This is often more expensive than financing the item.
- What if you decide you do not want the item?
  - You have to return the item and they keep all of the money already paid.
- Your credit rating is not affected.



- Rent-to-Own
  - Who would benefit from this plan?
    - People who have not established credit yet
    - People who have over extended their credit

### **Examples of Rent-to-own**



256 SB GRATIOT AVE MOUNT CLEMENS, MI 48043







 3. Extension of credit terms at an interest rate that is lower than the <u>market rate</u>.

The rate currently available

- 3. Market Rate
- What is an example of a company who can afford to offer this plan?
  - Car dealers: since they finance through the company's subsidiary corporation

# Market Rate Example:



- 4. Rebate or cash-back plan
- Example:
- When you purchase a car using this plan the cash-back portion is applied to the purchase price, lowering the loan amount

# Cash- Back Example









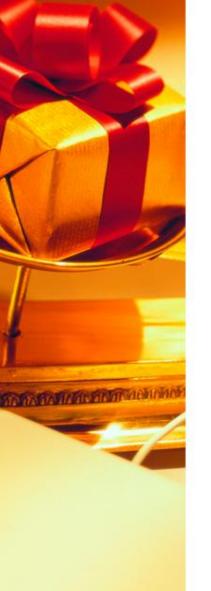
#### Skill 1

- Which plan yields the lowest total financed price to the customer for a \$28,500 new car?
- Plan 1: Offers the full **\$2,500 factory** rebate with only bank financing. (market rate is **13.5% for 3 yrs**)
- Plan 2: Offers a \$1000 rebate and financing at 7.5% for 36 months
- Plan 3: Offers a purchase price of \$28,500, no rebate, and financing at 2.9% for 36 months



### Skill 1

	Plan 1	Plan 2	Plan 3
Rebate	\$2,500.00	\$1,000.00	0
Rate	13.75%	7.5%	2.9%
Time	36 months	36 months	36 months
Loan Amount	\$26,000.00	\$27,500.00	\$28500.00
Monthly Payment	\$882.31	\$855.42	\$827.55
Total Financed Price	\$31,763.43	\$30,795.16	\$29,792.13



#### Skill 1

 Plan 3 yields the lowest total financed price to the consumer.



- P230-231 TYS #1,
- P232 EYS #'s 1-8