

Warm- up
Algebra
Review
pg 227 1-4





5.5 The Lure of Credit Terms: The Merchant Profits

Objectives



- Merchants generate credit income and attract customers with special credit plans.
- Calculate total financed price with lower-than-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-to-own plans.

Special Credit 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.

Special Credit Plans



- 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



Osho Sushi
Japanese Restaurant

**20% off
Dinner**

Excluding Specials
Cash Only

626.281.5288
112 N. Chandler Ave.
Monterey Park, CA 91754
www.EatingIsTheWay.com

**STUDIO SAMPLE
AND OVERSTOCK
SALE**

ALLISON WONDERLAND

REFINE JEWELRY

ERIN TEMPLETON

AND FRIENDS

June 17th Thursday 1 - 7pm
210 - 309 West Cordova Street
Between Homer and Cambie

CASH ONLY PLEASE

**SAVE \$ SAVE \$
PAY CASH
SAVE 7¢
Per Gallon**



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

Special Credit Plans



- 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 than financing the item.

Special Credit Plans



- 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



Special Credit Plans



- 3. Extension of credit terms at an interest rate that is lower than the market rate.
 - The rate currently available

Special Credit Plans



- 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:

2010 TSX Special AFS A.P.R. Financing

0.9% APR for 24- 60 months

For well-qualified buyers and buyers that qualify
for the Acura Graduate Program criteria.

SEE CURRENT OFFERS ▶



ACURA

SEE TERMS & CONDITIONS

MORE INFORMATION



Special Credit Plans



- 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



\$200*
CASH BACK
Panasonic
ideas for life

Excludes entire LKR series. *Conditions apply.

great quality,
even better
value with
**CASH
BACK**

\$30 CASH BACK	\$20 CASH BACK	\$10 CASH BACK
on GC4030	on GC338L, GC338U, GC4411, GC4430	on GC258L, GC338

**COUNT YOUR
COMPAQ
CASH BACK***

Up to
\$150
CASH BACK*

on Compaq Presario Notebook and
HP Touchsmart Notebook PCs

ADD SELECTED
MONITORS
AND ACCESSORIES
AND COUNT
YOUR
CASH BACK*

A vertical decorative image on the left side of the slide. It shows a gold-colored gift box wrapped in a red ribbon, sitting on a silver-colored metal stand. The background is a warm, golden-yellow color.

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