Sense and Cents-Ability

by Kathiann M. Kowalski • illustrated by Karen Lewis

Do you sometimes make silly spending choices? Or does your financial savvy help you save dollars and cents? Test your financial smarts. Help our classic characters make smarter money choices as they plan for a big party.

1. Robert and Edward shop for salty snacks to serve at their big party.

    "Look!" Edward says. "Fig-flavored pork rinds are on sale — just six bags for $9. On a per bag basis, that's cheaper than anything else." What do you say?

    A. Buy them! The cheapest per bag item must be a good buy.

    B. Stock up and save! Pay no attention to the April 15 expiration date.

    C. Don't just go by the price per bag. Figure out the cost per ounce. Then make your decision.

   D. Skip the pork rinds! You don't know anyone who likes them.

2. Edward and Robert need twelve liters of sugar-free soda for the party. To simplify things, they're buying only one flavor. One-liter bottles cost $0.99 each. Two-liter bottles cost $1.50 each. And a new gigantic six-liter size costs $4.44. What do you suggest?

    A. Get twelve one-liter bottles.

    B. Buy three two-liter bottles. At $1.50 each, you'll only spend $4.50 for sugar-free soda.

    C. Buy six two-liter bottles. The price per liter is less than that for the one-liter bottles.

    D. Buy two six-liter bottles. The price per liter is even less, and those huge bottles will impress your friends.

3. Marianne and Elinor want to look great at the party, so they're shopping at Jane Austen's Awesome Boutique. Marianne bursts out of the dressing room.

    "It's on sale!" she says. She twirls around in bright purple pants and a hot pink hoodie that says "Emma."

    What *Persuasion* can you use to discourage Marianne from buying the outfit?

    A. Even at "sale" prices, the outfit costs $200.

    B. Marianne's name isn't Emma.

    C. You think some of Marianne's existing outfits are more flattering.

    D. You don't know anywhere else Marianne would wear the outfit after the party.

4. Elinor persuades Marianne she looks better in a cute navy blue dress. The dress costs $150, including tax, but that's more than Marianne has in cash. What do you recommend?

    A. Charge it on her credit card. If she makes minimum monthly payments of $15, she'll pay off the dress in ten months.

    B. Charge it on her credit card, which already carries an unpaid balance of $500 from last month's charges. She can pay the $150 by next month's due date.

    C. Charge it on her credit card, but only if she has no unpaid balance from last month and can pay the entire amount before interest starts mounting.

    D. Act as if there are flaws in the dress and ask the sales clerk to cut the price.
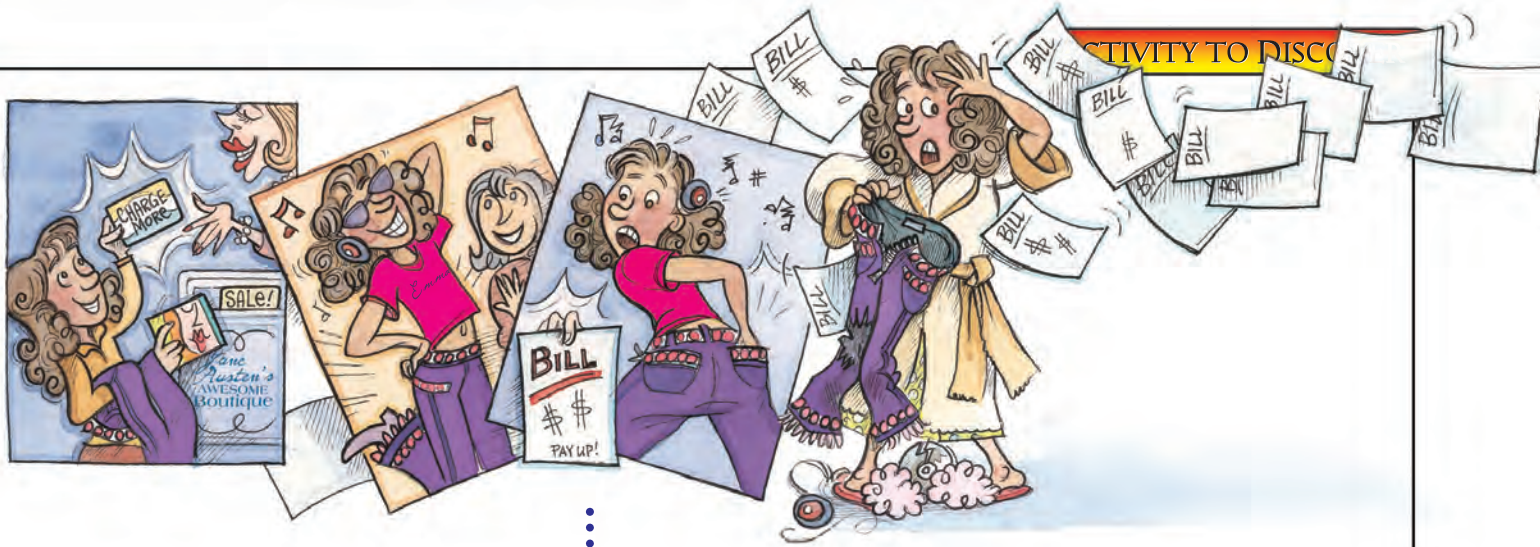
5. Elinor wants a red wool blazer that costs $100 more than she has with her or in the bank. What should she do?

A. Don't buy the jacket. Wear something that she can afford or already owns.

B. Pay by check or debit card. Elinor's bank covers overdrafts.

C. Get $100 from a payday advance store down the street. Then buy the jacket.

D. Open a new credit card account and worry about paying for the jacket later.

6. Lucy also shops at Jane Austen's Awesome Boutique. She finds some great jeans, a glittery shirt, a designer purse, and a leather jacket — all on sale for a total of $800. Lucy plops down her new credit card at the cash register.

"I can only afford the minimum monthly payments of $20," says Lucy. "But the introductory rate on this card is just 2 percent for three months. How great is that?"

What is Lucy missing?

A. Shoes! She needs new shoes for that awesome outfit.

B. Even if the interest rate stayed at 2 percent, paying off $800 would take 3 $1/2$ years. However, the interest rate will change after the introductory period.

C. If the interest rate jumps to 18 percent after three months and Lucy pays only $20 per month, it will take 4 years and 10 months to pay off the outfit. This assumes the rate doesn't go even higher.

D. If the interest rate jumps to 18 percent after three months and stays there, Lucy can end up paying more than $350 in interest.

7. Brandon arrives at the party with great news. He just won $10 million in this week's state lottery.

However, Brandon won't get $10 million now. Rather, the state plans to pay the amount in equal annual installments over a 26-year period. Or, if Brandon prefers, the state will pay $5 million now, without any future payments.

What would you do in Brandon's situation?

A. Always take the lump sum if the state offers it.

B. Always take the installments.

C. It depends mainly on whether the jackpot is more or less than $26 million.

D. Usually the installments are a better deal. But consider several factors, including whether you could safely invest a lower lump sum payout at an interest rate that would pay more in the long run.

Answers

1. D. If no one will use a product, it's a bad buy.

2. C. Consider unit pricing: The 2-liter bottles cost $0.75 per liter, versus $0.99 per liter for the one-liter bottles. The 6-liter bottle may save a penny per liter more, but wrestling with a soda bottle that weighs more than 13 pounds is silly.

3. All answers are appropriate. A "sale" isn't always the same as a good deal. Before buying something, consider its quality, usefulness, and suitability for you.

4. The best answer is C. Under A, paying off the outfit's cost would take at least eleven months if she paid just $15 per month. If the minimum payment was $15 and the interest rate was 18 percent, Marianne would end up paying $13.74 in interest. Under B, Marianne would still incur some interest charges, because she already has an outstanding balance from last month. Option D is dishonest and unethical.

5. A. Under B, bank fees for covering overdrafts can range as high as $35 — more than a third of the jacket's cost. Under C, a $100 payday loan could cost $15 or more. If Elinor paid it back in two weeks, a $15 fee would be equivalent to an annual percentage rate of almost 400 percent.

6. B, C, and D are all correct.

7. D is the best answer. State lotteries often use a high discount rate to determine how much to offer as a lump sum payment, and the future income stream of annual installments is often a better deal. However, potential changes in tax rates, personal circumstances, and other concerns also factor in.