



## Mini-task: Budgeting (2)

### Costs of running a car

If you have a car or bike, do you know what costs are involved and roughly how much each of these costs is per year?

Some of the costs involved might include:

#### Costs of running a car/motorbike:

- Car insurance
- Road Tax
- MOT
- Service
- Repairs
- Petrol/diesel/other fuel
- Oil, de-icer, etc.
- Breakdown cover
- Parking fees

#### 1 Paying for insurance

These days we have lots of options when arranging car insurance. Prices vary from company to company, depending on the details of the policy they are offering.

Often you get the choice of:

- paying a **one-off payment**
- paying by **instalment**.

But some companies make an extra charge for allowing you to pay in instalments, so it is worth checking this and comparing the costs.

Look at this quote.

Compare the costs of paying by the two different methods in this example:

#### Motor Insurance renewal

**£258.00**

or

**£22.15 per month**

Please check that the details on the attached renewal notice are correct and that the cover still meets your current requirements.

- a How much does this insurance cost over the year if the driver pays monthly?
- b Is this more or less than paying in one single payment? What is the difference between the two amounts?

Think about the factors that influence people's decisions about whether to pay monthly or in a single annual payment.

Some companies encourage their customers to pay by direct debit. This is an arrangement where the money is transferred to the company directly from the customer's bank account. Sometimes companies don't charge any more for paying monthly, providing you agree to pay by direct debit. Some companies even offer a discount to customers who pay by direct debit.

**How do you usually pay for your insurance (motor, house, etc.)?**

- Is there a difference for the companies you use between the cost of paying monthly or annually?
- Do you use direct debits? If so, does this offer any advantage(s)?

**Note on insurance costs:** Nowadays you can compare the cost quoted by different companies for their insurance quite easily using the Internet, for example.

As well as comparing the figures quoted, remember that in addition you may also find out about, and take into account, factors like:

- what each policy covers you for
- what amount of excess you would have to pay if you made a claim
- whether your no-claims bonus (if you have one) is protected or not

To what extent do you usually consider these things when you decide which insurance to take out?

**2 Commuting costs**

Ahmed is working out how much money he spends each year on running his car.

So far he has come up with the following costs – each based on either the actual amount for this year (if he knows it) or an estimate based on how much he spent on that item last year:

<b>Motoring costs:</b>	
Car insurance	£230
MOT	£60
Annual service	£230
Repairs, etc.	£460
ABC breakdown cover	£120
Petrol	
Parking	

- a What is the rough total of his **'core'** costs? (The amounts he has identified above.)  
These are essentially the costs of getting and keeping his car on the road. It doesn't matter how much he uses his car or how far he travels in it, he will need to pay these costs.

Use the questions on the next page to help you work out Ahmed's **'variable'** costs. These are the costs that vary according to how far he goes and how much he uses his car.

Ahmed drives to work five days a week.  
He usually fills up his tank with petrol about once a week – at a cost of around £35 each time.  
He spends £1.50 each day on parking while he is at work.

Roughly how much does he spend on **petrol** over a year? To help you approximate the amount, you could assume he fills up for about 50 weeks in a year.

**Note:** If you need help to identify which calculations you need to work the answer to these questions, see 'Mini-task: Which operation (1)' for some suggestions and practice.

Roughly how much does he spend on **parking** in a year?

- How much does he typically spend on parking each week?
- How much is this per month? (Assume roughly four weeks in a month.)
- How much is this per year? (Twelve months in a year.)

- b Roughly what **total variable costs** does this add up to over the year, relating to getting to work?

Ahmed wants to compare this to what it would cost him if he travelled to work by public transport.

He could get a bus to work. This would cost £2.95 return per day. There is a bus that stops at the bottom of his road.

Alternatively, he could get a train to work, which would cost £3.75 return per day. However, it would take him 15 minutes to walk to the train station from his house, so he decides this is not a good option for him.

- c Work out **roughly** what it would cost him to travel by bus.

You could approximate the costs using:

- 5 days a week
- 4 weeks a month
- 12 months a year

Approximate the costs using:

- 5 days a week
- 50 weeks in a year

- d What factors will influence his decision about whether to travel to work by car or bus?

## Mini-task: Budgeting

### Answers

#### 1 Paying for insurance

- a The cost of the insurance quoted if you pay by monthly instalments is:  
 $£22.15 \times 12 \text{ months} = \mathbf{£265.80}$
- b The cost of paying monthly is £7.80 more than paying in a single instalment:  
 $£265.80 - £258 = \mathbf{£7.80}$

#### 2 Commuting costs

- a Ahmed's 'core' costs are roughly:  
**£1100** ( $230 + 60 + 230 + 460 + 120$ )
- b Ahmed's variable costs are:  
Petrol about £1 750 per year ( $£35 \times$  about 50 weeks)  
Parking about £360 per year  
£7.50 a week ( $£1.50 \times 5$  days)  
£30 a month ( $£7.50 \times 4$  weeks)  
£360 a year ( $£30 \times 12$  months)

Total approximate costs on petrol and parking: **£2110**

- c Bus fare costs would be:

Approximately **£750** (if you work out  $£3 \times 5$  days  $\times$  50 weeks)  
or **£720** (if you work out  $£3 \times 5$  days  $\times$  4 weeks  $\times$  12 months)

- d Factors that will influence Ahmed's decision about how to travel to work might include:

- The comparative costs. (Which costs more? By how much?)
- Whether he would still want to keep his car if he travelled to work by bus. (If so, he would still need to pay all the 'core' costs of running his car.)
- The time it takes by each method of travel. (How long does the bus take compared to how long he takes to drive to work and park the car?)
- The comfort of each method. (Are the buses reliable? Are they often crowded, dirty or noisy?)
- The comparative flexibility each method offers. (Are there frequent buses? Is finding a parking space often difficult and time-consuming?)
- Personal preference. (Does he like driving?)