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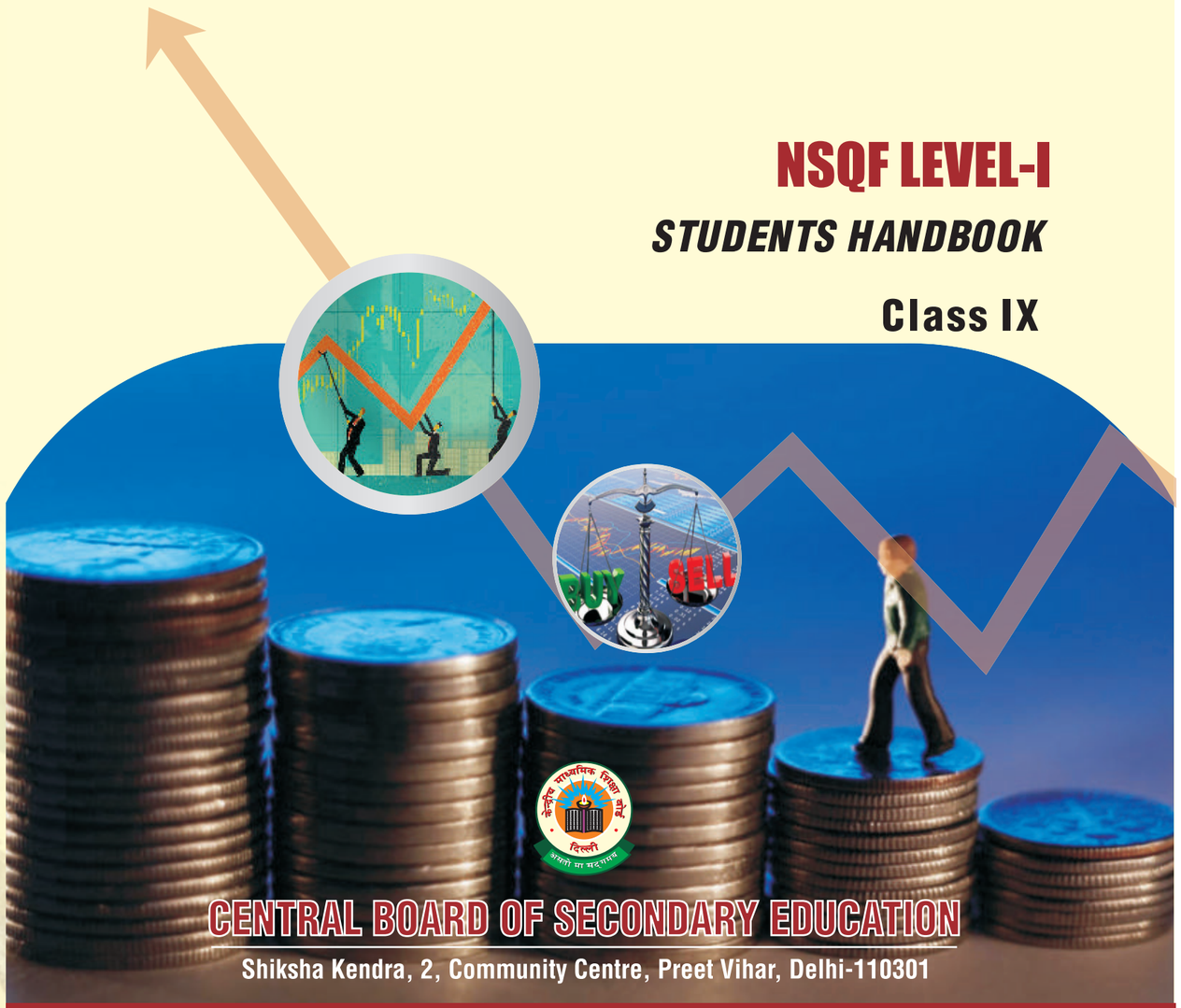
INTRODUCTION TO FINANCIAL MARKETS

NSQF LEVEL-I

STUDENTS HANDBOOK

Class IX



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Shiksha Kendra, 2, Community Centre, Preet Vihar, Delhi-110301

BUILDING SKILLS BUILDING FUTURE
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INTRODUCTION TO FINANCIAL MARKETS

Students Handbook - Class IX

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भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक सम्पूर्ण [1]प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य बनाने के लिए, तथा उसके समस्त नागरिकों को:

सामाजिक, आर्थिक और राजनैतिक न्याय,
विचार, अभिव्यक्ति, विश्वास, धर्म
और उपासना की स्वतंत्रता,
प्रतिष्ठा और अवसर की समता
प्राप्त कराने के लिए
तथा उन सब में व्यक्ति की गरिमा
[2]और राष्ट्र की एकता और अखंडता
सुनिश्चित करने वाली बंधुता बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवम्बर, 1949 ई० को एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

---

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से "राष्ट्र की एकता" के स्थान पर प्रतिस्थापित।

भाग 4 क

मूल कर्त्तव्य

51 क. मूल कर्त्तव्य – भारत के प्रत्येक नागरिक का यह कर्त्तव्य होगा कि वह –

(क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;

(ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;

(ग) भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे;

(घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;

(ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभाव से परे हों, ऐसी प्रथाओं का त्याग करे जो स्त्रियों के सम्मान के विरुद्ध हैं;

(च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परीक्षण करे;

(छ) प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;

(ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;

(झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;

(ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई उंचाइयों को छू ले;

[1](ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य के लिये शिक्षा के अवसर प्रदान करे।

---

1. संविधान (छयासीवां संशोधन) अधिनियम, 2002 की धारा 4 द्वारा प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [1]**SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the[2]unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

---

1. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "Sovereign Democratic Republic (w.e.f. 3.1.1977)
2. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "unity of the Nation (w.e.f. 3.1.1977)

THE CONSTITUTION OF INDIA

Chapter IV A

FUNDAMENTAL DUTIES

ARTICLE 51A

Fundamental Duties - It shall be the duty of every citizen of India-

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage of our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers, wild life and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

[1](k) to provide opportunities for education to his/her child or, as the case may be, ward between age of 6 and 14 years.

---

1. Subs. by the Constitution (Eighty - Sixth Amendment) Act, 2002

Preface

India is currently one of the fastest growing economy in the world. India also enjoys the great demographic advantage with youngest population. The young generation needs to be equipped with skills of the 21st century. Ministry of Human Resource Development, Govt. of India is laying great emphasis on skill and competency development. Accordingly, in future all employment will be related to acquiring qualifications as per National Skill Qualification Framework **(NSQF)**

Financial Skills is the ability to make informed judgments and decisions regarding the use and management of money. Financial Skills improves the quality of life and standard of living by promoting budgeting, disciplined savings, intelligent use of credit for home buying, planning for children"s education, marriage, retirement etc. Financial Skills is as essential a life skill for 21st century as Computer Skills. The CBSE has accordingly decided to introduce Financial Skills in the School of CBSE from the present academic session 2015-16 as part of Financial Markets Management Course at NSQF level 1 starting from class IX in collaboration with National Stock Exchange (NSE).

In view of the above, it has been decided to introduce FMM from class IX on wards in collaboration with NSE from academic session 2015-16 onwards. This will be a vocational skill based competency course in Financial Markets Management at NSQF level 1. The students will study the following subjects of FMM in class IX and X for 200 hours each. The remaining 4 subjects will be as per scheme of studies for class IX and X .

The present book on Concepts of Money Management will broadly cover teaching of Basics of Money & Money Management. This will empower the children to learn how to manage money, understand its importance and also teach their family members to become efficient managers of their money. The content has been prepared in a very lucid manner beginning from origin of money to managing one's personal finance effectively .

The Board takes this opportunity to thankfully acknowledge the commendable work of NSE in providing support to CBSE for successfully launching and implementing FMM course under NSQF. NSE is helping CBSE with Training of teachers, joint awareness workshops etc. NSE Learn to Trade (NLT) software for skill development for students will help them to develop market skills. The team at NSE lead by Shri Ravi Varanasi, Chief-Business Development, Mrs. Rana Usman, Sr. Assistant Vice President and Shri G.C. Sharma, Head Financial Education in promoting the financial market education through CBSE deserves a special mention. The team at CBSE lead by Sh. M.V.V. Parsada Rao, Director (Vocational and Edusat) also deserve appreciation for their contribution.

Comments and suggestions are welcome for further improvement of the Book.

Dr. Satbir Bedi, IAS
Chairperson, CBSE

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- Sh. G.C. Sharma, Head Financial Education, School & Universities, NSE

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UNIT 1 : MONEY-WHAT IT IS?

In this unit we will learn about;

- **Evolution of money**
- **History of money**

A brief history of Money

Money is the fuel that runs our homes and our economies. It has been in circulation in some form or the other since time immemorial. It will be around perhaps for all times to come.

Money is useful in our day to day lives. We know that our parents use money for meeting household needs. Money is required for sending you to school, for buying books, your clothes. Some of us who get pocket money from our parents also use money. Yet most of us give very little thought to what it really is and what it represents. Therefore, it is necessary for us to take a closer look at money and develop a solid understanding of it.

Evolution of Money

What is the meaning of money? Some experts say "money is what money does". A man on the street would probably cite coins and notes as a definition of money. But is money just coins or paper notes? What about the balance in a bank? Isn't that also money? Haven't we heard people saying I have money in the bank? Before we get into a detailed understanding of the concepts of money let us look at its history briefly.

Money is a medium of exchange. It allows us to satisfy our needs and wants. The history of money is a story spanning thousands of years. Earliest examples of money are the shekel, which refers to one of many ancient units of weight, used in the ancient kingdom of Babylon. Salt was used as money during early societies in Europe, ox-shaped bars of copper seem to have functioned as money in the bronze age in Eastern Mediterranean. Crops such as tobacco, rice, wheat, indigo and maize were also used in the barter system as money. **So money has seen different forms over its history.**

Money is an invention of the human mind. Money is a symbol that represents the value of goods and services. The creation of money is made possible because human beings have the capacity to accord value to symbols. The acceptance of any object as money – be a gold coin, salt or a paper note – involves the consent of both the persons, one exchanging the money with the other person for goods and services. Over thousands of years human beings have agreed to use different mediums as money. Thus, money has a human dimension, besides an economic function. As human consciousness has evolved, the nature and function of money evolved too.

Short History of Money

Initially, money was not a physical entity. There was no monetary system which existed at that time. To get a particular commodity, people had to exchange it with another commodity. This is called as **Limitation of Barter**. But this kind of transaction was possible only when commodities are available according to our needs and wants. So the discovery of precious metals gave a solution to the problems in barter system. The metals were exchanged instead of commodities. Later, carrying heavy bags of

metal coins was found to be difficult which paved way for paper money. Due to increase in the volume of business, paper money also became too heavy to carry. Thus, Paper money gave way to **intangible money.** When coins and currency notes are deposited with banks they become intangible money. Today we have plastic currency i.e debit cards which can help us withdraw money whenever we need from ATM.

Flint arrowhead

(Early Money)

Before there was money, as we know it, there was barter i.e. people exchanging goods and services for other types of goods and services we shall see this in more details in later chapters. People in early societies developed forms of money, like the use of commodities that everyone agreed to accept in trade. Various items have been used by different societies at different times. Aztecs used beans. Norwegians once used butter. The early U.S. colonists used tobacco leaves and animal hides. The people of Paraguay used snails. Roman soldiers were paid a “salarium” of salt. Language experts claim that from salarium only the modern term “salary” originated. On the island of Nauru, an island in the Pacific just south of the equator, the islanders used rats. Pictured here: a flint arrowhead.

(Symbolic Money)

Early in pre-history, people made a shift in what they choose to use for money. Some items, such as arrowheads, salt and animal hides, were used as money. Gradually, however, people began **exchanging items that had no real value**, but which had only agreed-upon or symbolic value. An example is the cowrie shell. Cowrie shells are found in an island off the coast of India. They have been widely used as currency in China, India, Thailand and in West Africa (even as late as into the 1930s).

Cowrie Shell

More **Symbolic Currency**

Another **symbolic currency -- used widely in the Americas -- was wampum**. Wampum are oblong shells sawed into beads, polished, and then strung together. Wampum was used as money in several early American states. A wampum factory in New Jersey remained in business until 1859. From the widespread use of wampum as symbolic currency we get the current phrase "shelling out" money.

Wampum

(Egyptian Currency)

The ancient Egyptians developed a system for making payments with weighed amounts of precious metal, such as the silver shown to the right, which were **weighed on a balance with stone weights.**

Stone Weights

600 B.C. **(The First Coins)**

Coins **are pieces of metal marked with designs that indicates they are money**. The earliest coins were made in the Kingdom of Lydia now in Turkey in the 7th Century B.C. The Lydians used weighed lumps of metal the shape was unimportant, stamped with pictures to confirm their weight. **The process of stamping is called "minting".** The stamp on the coin was a seal that identified the person who had guaranteed the coin's weight.

Earliest Coins

The Spread of Coins

The use of coins spread rapidly around the world, spreading quickly from Lydia across Africa and Europe. These coins (left) were made in Greece in the 6th Century B.C. The Greeks were avid traders throughout the Mediterranean region, and the spread of coinage around the region can in large measure be traced to the influence of the early Greek trading peoples.

Coins made in Greece

500 B.C. Chinese Coins

The earliest Chinese coins were made from Bronze in the shape of tools and shells. shells had been used as money earlier in China.

Chinese Coin (Bronze)

Chinese Paper Money

Chinese Paper Money

The earliest paper money was invented in China during the 10th century. They used one-foot square pieces of deer skin as money initially and later started using paper money. But in 1455 AD, China discontinued paper money due to increase in prices. Unfortunately, no examples of this paper money exist today.

Note issued by a Norwegian merchant in exchange for coins in 1695.

Paper Money in Europe

Paper money was adopted in Europe much later than in Asia and the Arab world – primarily because Europe didn't have paper. The first paper mill in Europe was established in 1151 A.D. in what is now Spain.Once paper was available, people began leaving their heavy coins with merchants in exchange for handwritten receipts. The note illustrated on the left was issued by a Norwegian merchant in exchange for coins in 1695.

Bank Notes

Beginning in the 11th century, European governments took over from local merchants and began printing paper money that served as official money. To make the system simpler, the paper receipts were given fixed values. The paper note shown on the right was issued by the Swedish Stockholm Bank in 1661 -- the first bank in Europe to issue printed money.

Printed Paper Money (Swedish Script)

India has been one of the earliest issuers of coins in the world (around 6th Century BC). The Moguls in India introduced paper money in the year 1236 AD. Later, it was discontinued after a short time. The origin of the word "rupee" is found in the word rûp or rûpâ, which means "silver" in many languages such as Hindi. The Sanskrit word rupyakam means coin of silver. The derivative word Rûpaya was used to denote the coin introduced by Emperor Sher Shah Suri during his reign from 1540 AD to 1545 AD. The original Rûpaya was a silver coin.

We shall read more details in the following chapters about the various kinds of money used in India.

Summary :

> Money is the fuel that runs our economies and is also the medium of exchange

> The Emergence of Money :

Early Money was barter. Symbolic Money was exchanged for items. Symbolic currency was used in America. Egyptian Currency payment was made by weighing precious metals.

> The First coins were designed metal pieces and the stamping of which is called "Minting".

> Paper money was invented in China and the first paper mill was established in Europe

> Swedish Stockholm Bank in 1661 was the first bank to issue printed money.

> The Moguls in India introduced paper money and a silver coin was the original Rupaya.

Keywords :

ATM - Automated Teller Machine; U.S - United States; B.C - Before Christ; A.D - Anno Domini

Self-Test questions:

I. Choose the correct answer.

1. Exchange of commodity for another is called _____
   a) Exchange system b) Barter system
   c) Symbolic value system
2. Paper money was invented in _____
   a) China b) India c) America
3. Metal coins were invented by _____
   a) Indians b) Chinese c) Lydians
4. In ancient times metal coins were made of _____
   a) Precious metals b) Inexpensive metals c) Leather
5. Which of the following term describes money?
   a) Real value b) Goods and services
   c) Medium of exchange

II. Fill in the blanks.

1. _____ is a symbol that represents the value of goods and services.
2. _____ was used as money in early societies in Europe.
3. Ox – Shaped bars of copper was used as money in the _____ eastern Mediterranean.
4. People began exchanging items that had no real value, but had only _____ value.
5. The process of stamping of pictures on metals is known as _____.
6. The first bank in Europe to issue printed money is _____.

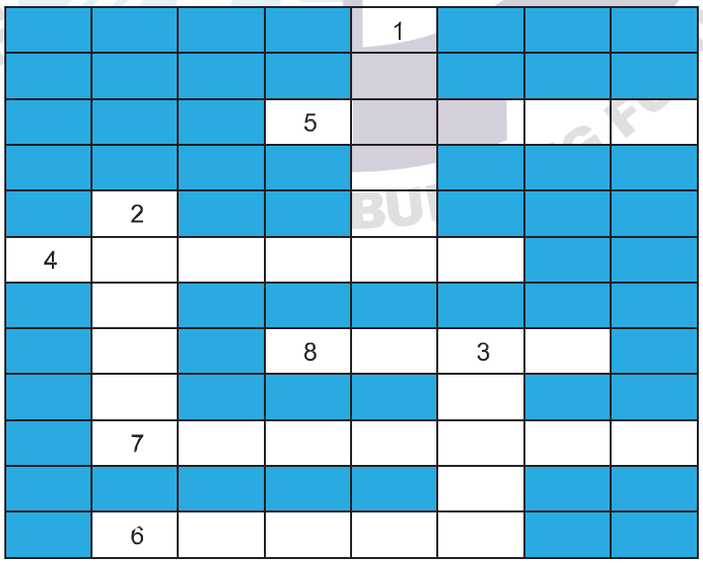
III. Match the following.

1.	Norwegians	-	Bronze in the shape of tools and shells.
2.	People of Paraguay	-	Precious metal
3.	Symbolic currency used in America	-	Butter
4.	Ancient Egyptian currency	-	Wampum
5.	Ancient Chinese coins	-	Snails

IV. Re – order the following terms according to their order of existence.

1. Bank notes
2. Barter system
3. Coins
4. Paper money

V. Crossword puzzle



Down:

1. Chinese used this metal to make coins in earlier times
2. Symbolic currency used earlier in America
3. Paper currency was first used in this country.

Across (right to left):

4. Exchange of commodities for another is known as.
5. Symbol that represents goods and services
6. Cowrie shells are found on an island off the coast of this country.
7. Stamping pictures on metals.
8. Crops used as money.

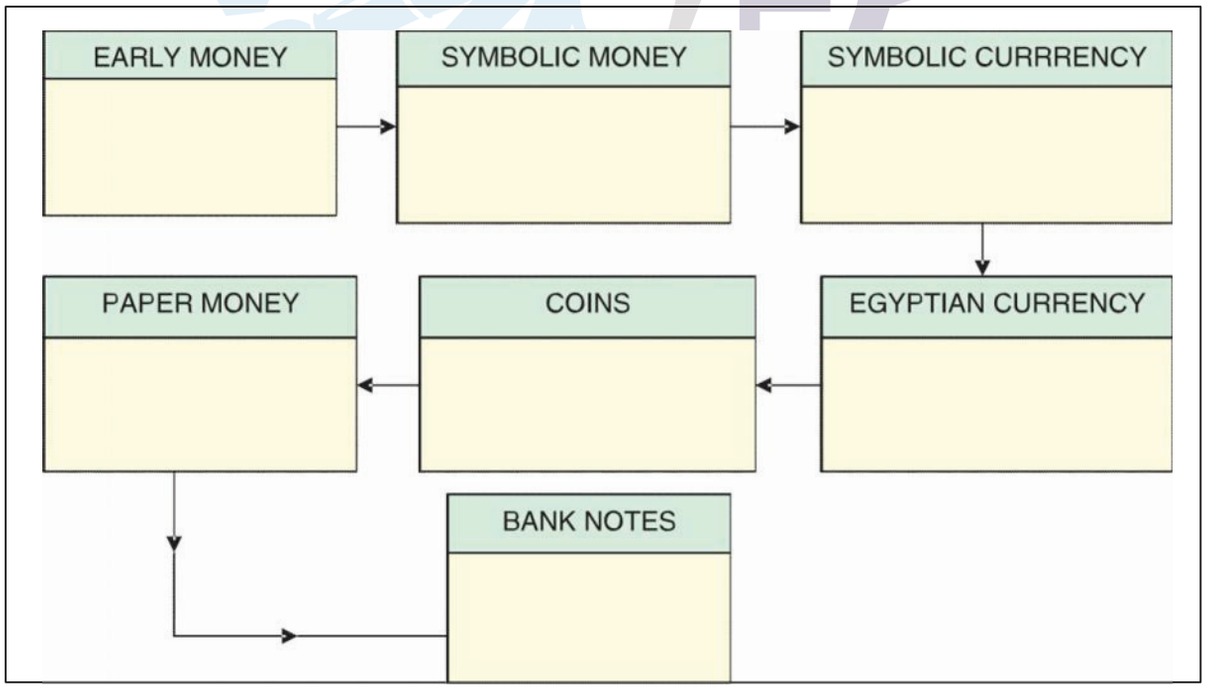
VI. Answer in detail.

1. Explain the evolution of Money.
2. Explain the invention and usage of coins.

VII. Activities

It is believed that money since its first appearance as early money had a long journey in various forms till it took its final shape as the bank notes

Give a pictorial account of evolution of money giving one example at each stage.



UNIT 2 : MONEY-EXCHANGE SYSTEMS

In this chapter we will learn about ;

- **Money as a medium of exchange**
- **Bartering**
- **Use of currencies as money**

Money is used as a medium of exchange for goods and services. Money is anything that is commonly accepted by a group of people for the exchange of goods, services, or resources. Every country has its own system of coins and paper money. When you go to a shop you exchange money with the shopkeeper for books, pencil, games, clothes etc. Money is used as the medium of exchange between the buyer (you) and the seller (shopkeeper) for the goods purchased. But was it always like this. Did people always use money as a medium of exchange. Not always. There were times during the early periods of civilisation societies engaged in what was called as a **barter** system.

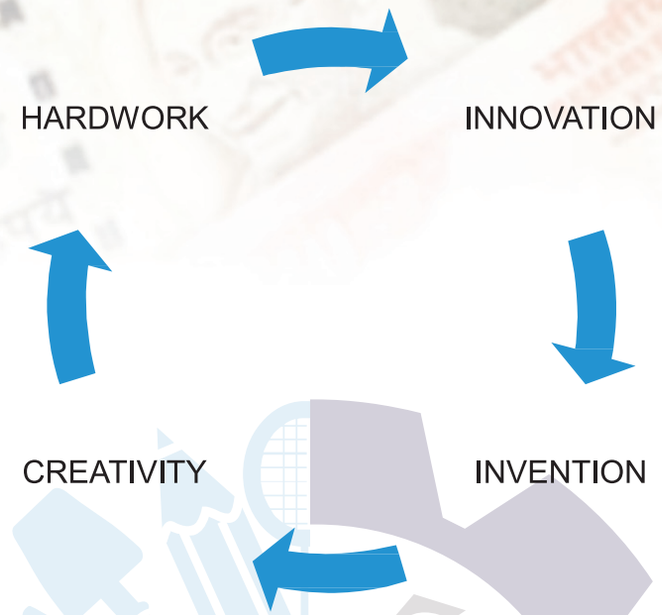
Bartering and Commodity Money

People in early civilization were not preoccupied with the thought of money. They were too busy worrying about survival—food, clothing, shelter. But, over time, people and societies sought ways to improve their economic lot in life. They sought ways to produce more and better goods and services and to produce them efficiently so that better use was made of resources. As a result of this search for better ways, a major evolution occurred— **specialization.** Rather than trying to do everything independently, people began to specialize, perhaps in house building, or clothing or food production. Through specialization, people's skills improved, enabling each person, and hence the society, to produce more things of better quality.

However, as specialization occurred and each person focused his or her economic activity on producing only one or a few things, another challenge arose. If individuals specialized in one or a few areas of production, how were they to acquire the other things that were needed and wanted? How would a farmer acquire things not related to farming? The answer—**trade**. A consequence of specialization is the need for trade. Specialization results in a person being able to provide more than he or she needs or wants of a particular good or service. There is a surplus beyond the personal or household need. The surplus is then available to trade in order to acquire the goods and services produced by others. The farmer's surplus food can be traded to acquire clothing, farming tools, and so on. The more productive the farmer, the greater the surplus. The greater the surplus, the more the farmer can acquire from others.

Specialization means people become more skilled and can produce more. The greater the surplus produced, the greater the potential to acquire more goods and services.

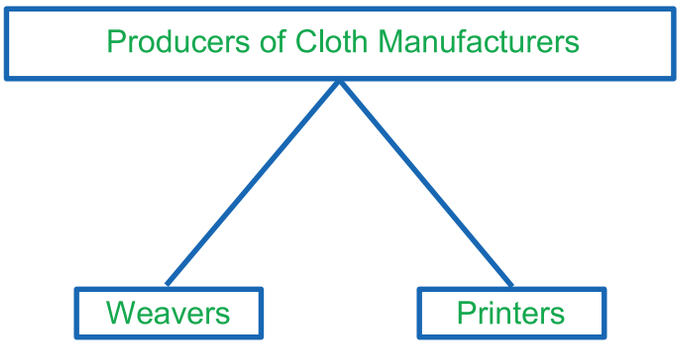
The wheel of economic progress



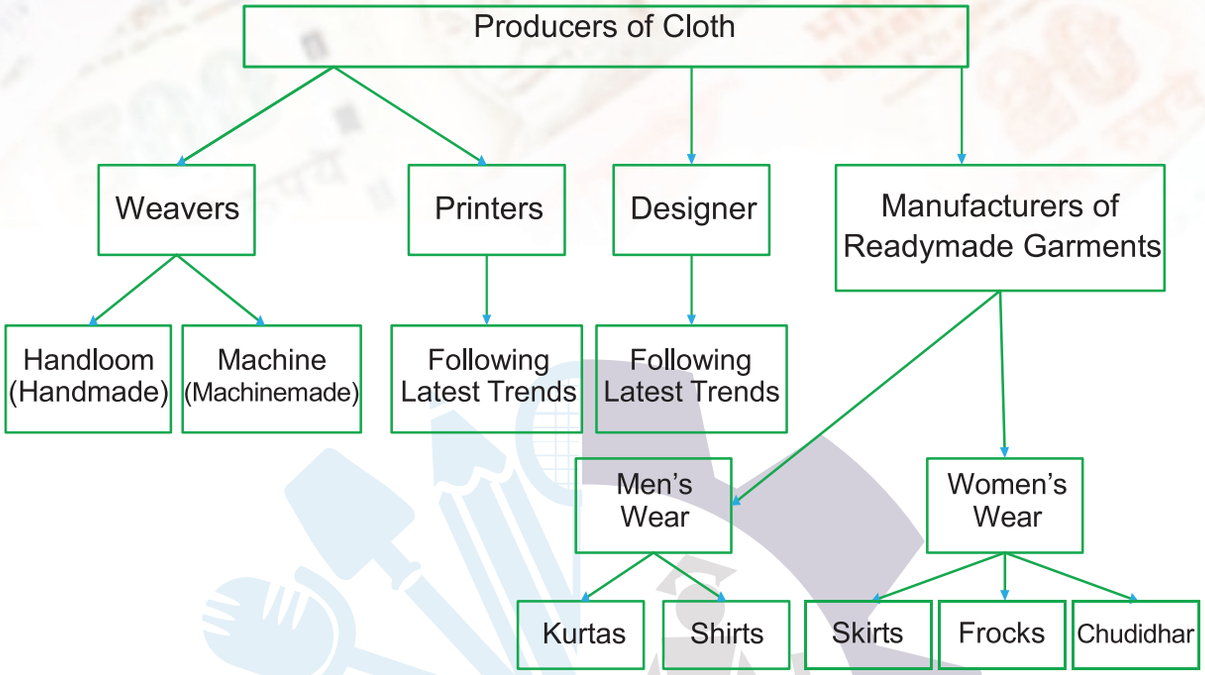
The wheels of economic progress began to turn. Innovation, Invention, Creativity and Hard work. Through specialization and trade, more is produced, better goods and services are produced, and the standard of living in a society rises. Specialization is associated with the concept of the **division of labour**, that is, labour becomes specialized and concentrated on certain activities. Rather than trying to do everything, or many things, a person concentrates his or her labour skills on one activity or on just a few activities in which he or she is good at.

In our early history, the degree of division of labour was limited because there were relatively few producers and a limited number of goods and services. Over time, though, more and more producers, and more and more goods and services, have enabled increased division of labour and more opportunities for specialization. In today's economy, we have a vast array of jobs and occupations from which to choose; in earlier times, there was much less variety. The advantages of specialization and trade have been recognized for a long period of time.

Early History of Division of labour



Today's Division of Labour Leading to Specialisation



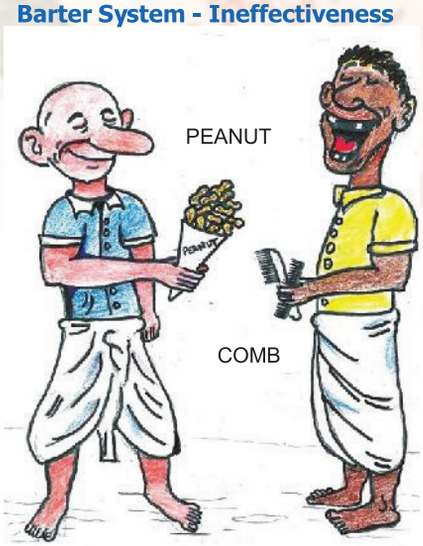
So the Specialisation and the Division of Labour Continuous.....

When the Europeans first came to North America many hundred years ago, they discovered that the Red Indians (original inhabitants) were already very adept and skilfull at trading. They were particularly good at hunting and were able to kill animals and obtain furs beyond their needs. This could be called as their specialised skill. They could, therefore, provide furs for trade with the Europeans. The Europeans received furs that were valuable back in Europe. In return, the Europeans gave different goods to the Red Indians. The exchange therefore took place by trading one or more items for other items, that is, through **barter**. **Barter** is the exchange of a good or service for another good or service like a bag of rice for a bag of wheat. An economy based on this method of exchange is referred to as a **barter system**. Barter is a type of trade that does not use any medium of exchange. For example a person who wishes to buy a kilo of rice may give in exchange a kilo of some other goods, say wheat in exchange for the rice. There is no money exchanged between the buyer and the seller.

As long as the output of the economy is made up of relatively few goods and services, this type of system can function successfully. However, as a society advances, and a much greater volume and diversity of output is produced, bartering becomes very complicated and cumbersome. What if you couldn't agree what something was worth in exchange or you didn't want what the other person had. To solve that problem humans developed what is called commodity money, like salt, tea, tobacco etc.

A commodity is a basic item used by almost everyone. In the past, salt, tea, tobacco, cattle and seeds were commodities and therefore were once used as money. However, using commodities as money had other problems. Carrying bags of salt and other commodities was hard, and commodities were difficult to store or were perishable. People therefore started using metal objects as coins and later paper as money. These were more convenient than salt, tea and seeds.

Barter System - Ineffectiveness



Will the barter system work now?

How funny! You always don't need what others offer you and vice versa.

Coins and Paper Money

Studies have shown that metal objects, in different forms and shapes, were introduced as money many thousand years ago, probably around 5000 B.C. By 700 BC, metal coins were introduced as money. Countries were soon minting their own series of coins with specific values. Metal was used because it was readily available, easy to work with and could be recycled. Since coins were given a certain value, it became easier to compare the cost of items people wanted.

Some of the earliest known paper money dates back to China, where the issue of paper money became common from about AD 806 onwards. Paper money are notes with standardized characteristics issued as money. China experienced over 500 years of early paper money, spanning from the ninth through the fifteenth century. Then beginning in 1455, the use of paper money in China disappeared for several hundred years. This was still many years before paper currency would reappear in Europe, and three centuries before it was considered common.

Modern Currencies

In modern societies today, coins and paper money are the most commonly used forms of money. Money is also called as currency or a unit of exchange. In India the currency we use is called the Indian Rupees. We pay money in the form of Rupees to buy things. We also pay in Paise, which are called fractional Rupees. Rupees and Paise are modern currencies used today unlike in the olden days when people used barter.

Just as in India we use Indian Rupees, different countries have different currencies. In each country the currency of the country is used by the people for purchasing goods and services.

Country	Currency name	Sign
Argentina	Argentine Peso	$
Australia	Australian Dollar	$
Brazil	Brazilian Real	R$
Canada	Canadian Dollar	$
China	Chinese Yuan	¥
France	Euro	€
Germany	Euro	€
India	Indian Rupee	₹
United Kingdom	British Pound	£
United States	United States Dollar	$

Summary:

> Money is used as a medium of exchange for goods and services between the buyer and the seller.

> Specialization led to trade and brought about the concept of division of labour, introducing variety.

> Metal coins were introduced as money and Paper currency reappeared.

> Different countries have different currencies.

> Indian currency is called the Rupee.

Keywords :

B.C - Before Christ; **A.D** - Anno Domini

Self-Test questions:

I. Choose the correct answer.

1. People in early civilization were too busy worrying about _____.
   a) survival b) savings c) education
2. Specialization means people become _____.
   a) hard working b) more skilled c) more intelligent
3. In our early history, the degree of division of labour was _____.
   a) plenty b) limited c) not found
4. _____ is one of the difficulties in using commodities as money.
   a) Hard to carry b) Measuring c) Conversion
5. Metal objects in different forms and shapes were introduced as money many years ago probably around _____.
   a) 2000 BC b) 4000 BC c) 5000 BC

II. Fill in the blanks.

1. _____is anything that is commonly accepted by a group of people for the exchange of goods, services, or resources.
2. Money is used as the _____between the buyer and the seller for the goods purchased.
3. Red Indians were able to provide _____ for trade with the Europeans.
4. Money is also called as _____.
5. The currency used in Germany is called _____.

III. Match the following.

1.	Specialisation	-	paise
2.	Red Indians	-	surplus beyond the personal need
3.	Commodity money	-	good at hunting
4.	Fractional Rupees	-	division of labour
5.	Trade	-	a basic item used by everyone in the past

IV. True or false.

1. As long as the output of the economy is made up of relatively few goods and services, barter system can function successfully.
2. In the past, salt, tea, tobacco, cattle and seeds were once used as money.
3. Since coins were given certain value, it became difficult to compare the cost of items people wanted.

4. In modern societies today, coins and paper money are the most commonly used forms of money.

5. Metal coins cannot be recycled.

V. Answer the following briefly.

1. Write short notes on Trade.

2. Describe briefly about division of labour.

3. What is commodity money?

4. Describe briefly about money used in India.

VI. Answer in detail.

1. Explain bartering and commodity money.

BUILDING SKILLS BUILDING FUTURE

UNIT 3 : KEY CHARACTERISTICS OF MONEY

In this unit we will learn about ;

- **Functions of Money**
  - **Medium of Exchange**
  - **Standard of Value or a Unit of Account**
  - **Store of Value**

Medium of Exchange

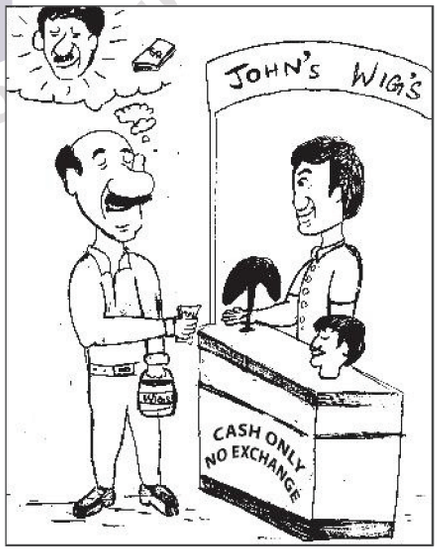
Money helps bring simplicity and organization to our economy. Money is our medium of exchange. Throughout history, societies have used various items as the **medium of exchange**, everything from salt to gold. For one reason or another, these items became acceptable in some societies as forms of payment for goods and services. As soon as anything is readily accepted in a society as money, it can serve as a medium of exchange. That is the most important criterion for anything to serve as money – it must be **readily acceptable** .

Goods

Services

Standard of Value or a Unit of Account

Another function of money is that it serves as a **standard of value or a unit of account.** That is, money serves as a common item in which the prices of all goods and services can be set. If a person wants a computer, he or she doesn't have to calculate how many loaves of bread will be necessary in order to buy it or how many bags of rice how many packets of salt etc. Unit of account or value in terms of money does the job. The computer would cost Rs. 20,000/- is the common, standard value of the computer for anyone who wishes to buy the computer.



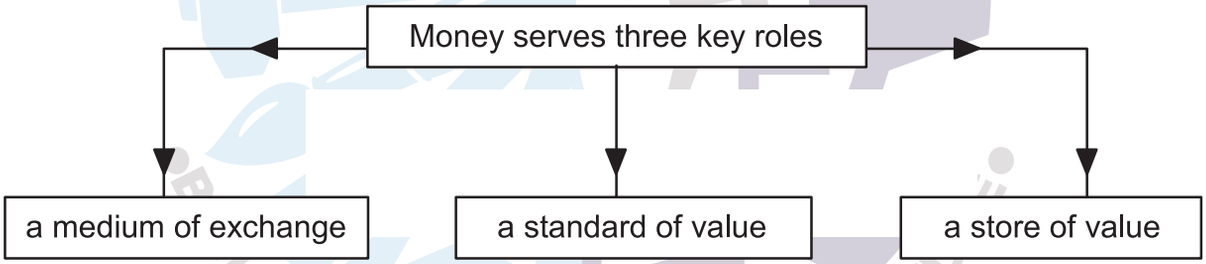
Store of value

And money has a third function, as a **'store of value'**. Rather than spending the money today, you can store (i.e. save) it for future use.

If what we use as money, is going to be stored or saved for future use, this shall further limit what can serve as money.

For eg. suppose you were paid in apples but you didn't want to spend all your income (Apples) immediately; you wanted to save now and use income apples to spend later. You're going to have some difficulty in saving some of your **"income apples"** for more than a few days. The income apples will eventually rot or decay, and no one is going to buy rotten income apples from you. You don't want your income to lose its 'acceptability'.

We want our money in a form which is easy & convenient to save. The money should have a form which is simple and easy to save and not a commodity like apple or an orange which can get spoilt after sometime and lose their Store value. Therefore, instead of apples and oranges, metal coins and paper currency are used as money since they are easier to store and do not rot or decay with passage of time (atleast not as quickly as an apple would !).



It helps our homes to run and our economy to work more smoothly. It simplifies the trading (Exchange) process. It enables us to save for the future. However, shells or beads wouldn't work particularly well as money. At an earlier time, in a simpler economy, they could and did.

There are some general characteristics for acceptability as money.

- First, to serve as an effective medium of exchange, money must be **durable**.
- Second, what serves as money must not be easily reproduced by people in abundance and should be **relatively scarce**.
- Third, although what serves as money must be relatively scarce (not rocks, for example), **it can't be too scarce**. Whatever serves as money has to be available in sufficient quantity to enable all the exchanges in our economy to take place.

- Fourth, money has to be **easy to transport**.
- And last, money must be **divisible** into usable quantities or fractions.

As stated above, the most essential attribute of anything that serves as money is its acceptability. It must be readily accepted by people in the economy. Today, Money as a medium of exchange has taken the form of paper currency, coins and Plastic currency.

Summary :

- Money is readily accepted.
- It serves as standard of value or a unit of account
- It is also a store of value.
- The Characteristics of Money:

  Durable, not easily reproduced by people, relatively scarce, not too scarce, easily Transported & divisible

Keywords :

Rs-Indian Rupees

Self-Test questions:

I. Choose the correct answer.

1. The most important criterion for anything to serve as money is _____.

   a) it should be readily available

   b) it must be readily acceptable

   c) it should be a coin

2. One of our goals in saving is to ensure that the value of our savings doesn't _____.

   a) decrease over time

   b) increase over time

   c) have no value over time

3. Money must not be easily reproduced by people and should be _____.

   a) readily available

b) easily produced in abundance

c) relatively scarce

4. Which of the following is one of the characteristics of money?

a) Easily reproducible by people.

b) Unlimited value

c) Divisible into usable quantities.

II. Fill in the blanks.

1. An effective medium of exchange must be _____.
2. Rather than using money for spending today, it can be _____for use in the future.
3. Money must be _____into usable quantities or fractions.
4. Money helps to simplify the _____ process.

III. Match the following.

1.	Unit of account	-	long lasting
2.	Medium of exchange	-	Usable quantities
3.	Durable	-	standard of value
4.	Relatively scarce	-	Readily acceptable
5.	Divisible	-	difficult to produce in abundance

IV. True or false.

1. Money is not a common item in which the prices of all goods and services cannot be set.
2. Commodity money cannot be saved for the future.
3. Money serves as a standard of value.
4. Money as a medium of exchange today has taken the form of paper currency and coins.

V. Answer the following briefly.

1. What is meant by medium of exchange?
2. Give a brief note on unit of account?

3. Write a short note on store of value.

4. Why should money be divisible into usable quantities?

VI. Answer in detail.

1. Explain the characteristics of money.

VII. Activities

> Identify the features of the following commodities and things

> Do they possess the characteristics of money, Why / Why not ?

> Give your reasons in a line or two.

UNIT 4 : WHAT IS FINANCIAL PLANNING ?

In this chapter, we will learn about :

- **Setting Goals**
- **Analysing information**
- **Creating a Plan**
- **Implementing the Plan**
- **Monitoring and modifying the plan**

Let us consider the example of playing a game during the PT class.

Setting a Goal	Game to be played, Cricket or Football
Analysis of Information	Team Members available, Cricket - Fast bowler, Spinners, Bats man in form. Football - Goalkeeper, center forward, forward(striker), defensive fu back.
Creating a Plan	Fast bowler or Spinner, Bowling the first few overs / choosing opener, considering their strength & weaknesses. Similarly for Football
Implementing the plan	Number of overs to be played, lack of time, players injured, focus on winning
Monitors & Modify	Changes in the team to be adopted, alternate plan, to check reserve players available

If you ask your parents they may tell you that money which they earn is very important for running of the house. Money allows them to meet the household expenses. It is like the petrol for a car or scooter. Without money a family cannot get too far just like without petrol the car would not go too far.

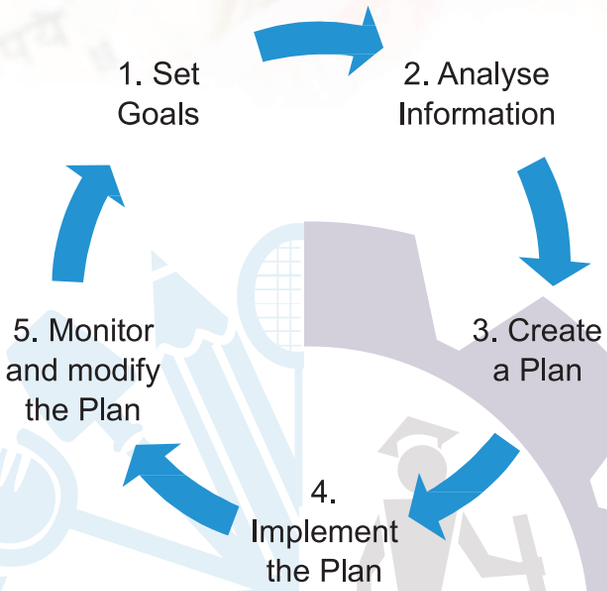
On your next birthday you may decide you wish to buy a new cricket bat, go for a movie or simply throw a party for your friends at home. These are your personal goals on your birthday. For all these activities what is common? The common factor here is you need money for achieving the end result whether it is the cricket bat, movie or a party for friends. For achieving any of the goals, you need money and whether you realise it or not, you use some kind of a plan to achieve your goal. If you fail to plan, you plan to fail. Planning is essential for your success in life.

Financial Planning is the process of defining goals, developing a plan to achieve them, and putting the plan into action. It is the blueprint (the plan) for handling all aspects of your money, including spending, saving, and investing. Some people plan well and have the rewards that go with it—nicer cars, comfortable homes, savings,

fun vacation trips. Other people never learn to plan, and never seem to have enough money.

So why this difference, and what are the elements of a good financial plan?

Look at the graphic below indicating the steps in financial planning :



Notice that financial planning is an ongoing, thinking process. The plan itself might be in writing, but it can and should change over time as your circumstances in life change. Let's look at each of the financial planning phases in more detail.

Probably the biggest part of financial planning is knowing yourself. What do you want to be? What do you want money to do for you? What kind of career do you want? Where do you want to live? What kind of car do you want to own? The answers to these questions all involve money, to one degree or another. With rare exceptions, most of us do not have enough money to do everything we want. Instead, we have to make choices and tradeoffs because we have limited amounts of time and money—limited resources. To help make those choices, a good financial plan distinguishes between needs and wants.

Needs versus Wants

Needs are essentials, the basics of life like food, clothing, and a place to live, etc. **Wants** simply increase the quality of living. Needs and resources are limited but wants are unlimited. Going to movies, eating out, going on a vacation are wants. Wants are fun and interesting to do and there's nothing wrong with wants. However, for people with limited amount of money, needs are foremost priority.

In the center column in Assignment 1.1, list five items or activities that cost money. Then take a look at each item and put a check mark in the Need or Want column as you see fit.

Assignment 1.1

My needs and wants: Can I tell the Difference?

Need	Item / Activity	Want

Compare your answers with some of your classmates. Is there a difference between your needs and theirs? What about your wants? People define needs and wants differently (and that's okay!), depending on their own **values**. Your values are simply the beliefs and practices in your life that are very important to you. Lots of things may influence your values, such as your family, your friends or your teachers.

Some examples of values:

- Earning good marks in exams
- Being responsible with money
- Being on time to class
- Telling the truth
- Spending time with people you love etc.
- Finishing the home work

And whether you realize it consciously or not, you do have a set of values. Some of those values relate to money, like not spending on unwanted things. The more aware of your values you are, the easier it is to set goals that will make your life satisfying and enjoyable. To help you identify your personal financial values, fill out Assignment 1.2.

Assignment 1.2

My Values

Value	Why it's important to me

One way of planning your future is by understanding and implementing your goals, which are based on the values you have.

Steps in financial planning:

Step 1 : Setting Goals

Step 2 : Analysing information

Step 3 : Creating a Plan

Step 4 : Implementing the Plan

Step 5 : Monitoring and modifying the plan

Step One :

Setting Goals

A goal is a destination, something you want or need, which you acquire by taking certain steps. It gives direction to your plan of action. One of the most valuable things you can learn to do is to identify your goals clearly. Your goal might be to travel to your cousin's place in Madurai during vacations. Or it might be to buy a new pen since the old one doesn't write properly.

To be really effective, goals should always be in writing and should be meaningful to you. Your friend's goals might be really great, but they won't mean as much to you as your own goals, which are based on your values. It's helpful to define your goals in a "SMART " way. Think of it like this:

Specific: Goals set must be specific. What you want to achieve is to be specific. Specific goal setting will lead to plan and work towards that.

Specific goals	Goals which are not specific
"I want to spend my Sunday at the Beach. Spending time in a Beach is specific.	"I want to do something on Sunday."
"I want to buy a motor bike in another two years." Buying a motor bike is specific.	" I want to buy something in two years."

Measurable: Goals set are to be measurable in nature. Measurable means that you must know how much you require to achieve the set goal.

Measurable goal	Un measurable goal
"I need Rs.60,000 to buy the motor bike."	"I need some money to buy the motor bike".

Attainable: The goal set must be reachable for you. If it is not reachable you can not attain your goal.

Attainable goal	Un attainable goal
"I will save Rs.2,500 per month for a period of two years out of my salary of Rs. 10,000 per month to buy a motor bike worth Rs. 60,000." Saving of Rs. 2,500 out of Rs. 10,000 per month is possible.	"I will save Rs.12,000 per month for a period of five months out of my salary of Rs.10,000 per month to buy a motor bike worth Rs. 60,000. When your salary is Rs. 10,000 per month, how will you save Rs.12,000 per month?

Realistic: The goal set by you must be realistic. It means the goal set by you should have possibility of doing it. If it is not possible to do a particular thing, all your effort will go in vain.

Realistic goal	Un realistic goal
I will buy a motor bike worth of Rs. 60,000 by saving Rs.2,500 per month after a period of two years. It seams realistic.	I will buy a motor bike tomorrow by getting a loan from a bank which is near by my house. Getting a loan involves so many formalities to be completed when you are eligible for getting a loan as per bank policy. So you cannot simply say that "I will get a loan tomorrow". It is not realistic.

Time-bound: The goal set by you must specify a particular time period in which you will achieve the goal. Otherwise you cannot plan your activity.

Time-bound goal	Goal not based on Time-bound
"I want to buy a motor bike in another two years." Buying a motor bike in two years is Time-bound.	"I want to buy a motor bike in some years". Buying a motor bike in some years is not Time-bound. What plan you can adopt to achieve the goal?

Think of your goals as what you want to be, do, or have—in other words, where you want to go. Remember, part of setting SMART goals means they are realistic and attainable. It's very helpful to break up your goals into three time periods for planning purposes.

Sample SMART Goal Timelines.

Short-term: Goal planned to achieve within a day or a week or a month or within three months. Short-term goals have a time frame of up to three months. Eg. to save Rs. 200 by the 1st of next month so I can take my friend out for a movie.

Intermediate-term: Goal planned to achieve in few months or within a year. Intermediate-term goals take place between three months and one year. Eg. to save Rs. 200 every month for the next 4 months to buy a new T-shirt and trousers.

Long-term: Goal planned to achieve after a year. Long-term goals are more than a

year. Those long-term goals require patience to achieve and a willingness to give up something you want now in return for something better later. Eg. to save Rs. 2000 per year for the next four years to buy a hi-fi music system.

Step Two:

Analyze Information

The second step in the financial planning process is to evaluate information about yourself. Let's start with where you are now. How do you get money? Do you receive an allowance? How much do you get each week? How much do you spend each week? What do you normally spend your money on?

Answers to questions like these help pinpoint where you are financially. It helps you to understand your financial resources so that you can plan your next step.

Step Three:

Create a Plan

Once you have the information available to you as to where you stand in terms of your finances today you can match your resources with your goals. Do you have enough money with you to meet your goal, whether it is the new T-shirt or trousers or going out for a movie? If not, what do you need to do? What you are facing is a situation of limited resources. So what do you do? It is time to make some financial decisions and formulate a plan.

Let's say you have two goals:

Goal A : to save Rs. 300 by the 1st of next month to buy a game box.

Goal B: to save Rs. 900 within the next three months to buy a sports shoe.

From analyzing the information available with you, you would know where you stand financially today. How much money you have, how much you can save etc. Now you would have to decide if you are able to achieve both the goals or just one goal. In case you are able to save Rs. 300 within the next month you can buy a game box, but then you would not be able to buy sports shoe after three months. Otherwise you may decide not to buy the game box and buy the sports shoe after three months if you feel you can save enough. Or you may decide to buy a game box of lesser value and use the remaining money plus savings to buy the sports shoe after three months. You must use your decision making skills and information available with you to make a plan on which of your goals you want to achieve. You need to decide on the pros and cons of each goal and arrive at a decision. Once you decide which goals to work towards now and which ones will have to wait, you have started to put your plan in place. The key is making sure you have enough money to achieve your goal in the end. For this you need to save money regularly as planned otherwise your goals would be difficult to meet.

Step Four:

Implementing the Plan

With your plan in place, all you have to do is make it happen. Knowing what you should do and actually doing it can be challenging. It takes discipline. Be focused on your goals, do not lose track of what you want to achieve, within the time frame you have chosen. Do not waste your resources on unwanted and unnecessary pursuits. This is also known as taking personal financial responsibility. You have a choice when it comes to being responsible for your money. Use the money wisely so that your goal is achieved as per your plan. If you handle it wisely and respectfully, you take personal responsibility for your actions and decisions. Find someone who will encourage you to stick to your goals, like your parents. Doing important things with someone who supports you – like helping you with you homework – is almost easier than going it alone.

Step Five:

Monitor and modify the Plan

After you create a plan, be aware you may need to change it over time. You will run into unexpected obstacles. Your goals may change; you may add new goals or your resources may change. That's life, and it's normal. You may have unexpected expenses. Over time, your values and goals may change. Don't be afraid to revise your financial plan which may now have to take into account new goals. All you require to do is be firm on meeting your goals through knowing where you stand today, being realistic and using your money wisely.

When you complete a goal, cross it off your list. Then revisit your list of goals and do a check-up regularly to see where you stand and where you are heading.

That's financial planning in a nutshell: Making money work for you to let you lead the kind of life you want. Be careful about getting mixed up here and letting money control you. Money is just a means to an end.

Beneficiaries of Financial planning

It is useful to everyone. There are many instances of highly paid employees who came to financial grief merely because they did not plan for their post-career years. Similarly even people earning small amounts of income should undertake this process, as it will help them in prioritizing their goals so that their limited income can be used more efficiently. "Little drops of water make the might ocean".

Summary :

> Financial Planning is the process of defining goals and prepare plans to achieve the same.

> Needs are essentials, the basics of life – Food, clothing & Shelter.

> Wants simply increase the quality of life depending on ones values.

> A goal is a destination. “SMART” goals enables you to live smartly.

> Setting the plan for the chosen period is the first step.

> The second step is to analyze and evaluate information.

> Next, with the information available take a decision and formulate a plan.

> Then remain focused on the goal and face any hurdles and challenges.

> Be realistic while making changes to modify the plan if required.

Keywords :

PT - Physical training; Rs -Indian Rupees; Eg -Example

Self-Test questions:

I. Choose the correct answer.

1. People use some kind of a _____ to achieve their goal.

   a) Plan b) Commodity c) Coin

2. The common factor which you need for any of your personal spending is _____.

   a) Parents b) Friends c) Money

3. Financial planning is _____.

   a) a static process b) an ongoing process

   c) a finished process

4. Financial planning distinguishes between needs and _____.

   a) Money b) Wants c) People

5. Which of the following is an essential or basics of life?

   a) Needs b) Wants c) Gold

II. Fill in the blanks.

1. _____is the process of defining goals, developing a plan to achieve them, and putting the plan into action.
2. _____and _____are the limited resources for doing anything we want.
3. Wants increase the _____ of life.
4. A goal is a _____, something we want or need.
5. The process of evaluating information about oneself is known as _____.

III. Match the following.

1.	Goal	-	Increases the quality of life
2.	Needs	-	Matching resources with goals
3.	Wants	-	Direction to plan of action
4.	Values	-	Basics of life
5.	Creating a plan	-	Telling the truth

IV. True or false.

1. Financial planning is the plan for handling all aspects of your money, including spending, saving, and investing.
2. Goals are based on one's own values.
3. Setting goals are to be measurable.
4. After creating a financial plan it should not be changed for any reason.
5. Short term goals have a time frame of up to one year.

V. Re-order the following activities according to their order of existence in financial planning.

1. Analyse information
2. Monitor and modify the plan
3. Create a plan
4. Setting goals
5. Implementing the plan

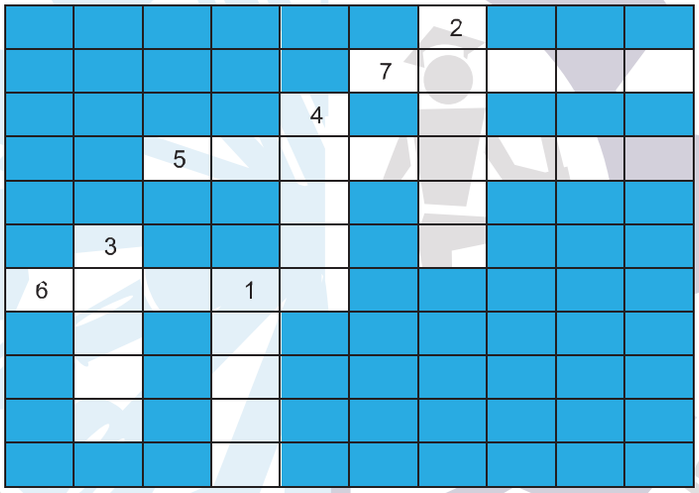
VI. Answer the following briefly

1. What is financial planning?
2. Differentiate between Needs and Wants.
3. Why goals are to be realistic?
4. Who benefits from financial planning?

VII. Answer in detail.

1. Describe the “SMART” way of defining goals.
2. Describe with an illustration about creating a financial plan.

VIII. Crossword puzzle



Down:

1. Maximum time period for short term goal in months. (in 5 alphabets).
2. When your goal is getting changed you must _____your plan. (in 6 alphabets).
3. Being on time for work is a kind of (in 5 alphabets).
4. Basics of life is called (in 5 alphabets).

Across (left to right):

5. The first one in “SMART” way of defining goals (in 8 alphabets).
6. Anything which increases the quality of life is called (in 5 alphabets).
7. The common factor you require to fulfil your goal. (in 5 alphabets).

UNIT 5 : WHAT IS INCOME ?

In this chapter we will learn :

- **What is income/incoming money?**
- **How do taxes and other deductions affect your income?**

Ask any business owner, and they'll tell you cash is the lifeblood of their business. Cash is to personal financial planning as petrol is to your moped or scooter. Without either, you're not going very far. Think back to the previous lesson where you had some goals which you wished to achieve. One of the problems you had to solve was the money to save. But where does the money come from? You need to earn and retain the money from the plan you do on your earnings, spending, and savings. A **budget** is a plan for managing money during a given period of time. Budgets are not made only by the governments, your mother makes a budget. She tries to plan expenditure using the available income every month. In some cases every day.

You decide the length of time you want to use your budget. It helps you to properly plan and achieve your set goals. To begin with let us look at the various components which create a Budget.

Income ?

Income may be defined as the true increase in the amount of wealth which comes to a person during a fixed period of time. Income may be received in cash or in kind. So Income is the money earned, whether from salary, business, profession, renting a property, sale of assets, gifts, interest on deposits or any other source.

Income is 'money coming in'. There are many ways you can receive money. Most people think of income as money earned from a job. But let's get a little more creative view on incomes.

> Do you receive an allowance? You've got an income.

> Do you get money on your birthday? That's income, too.

> Does a doctor, lawyer or an engineer, get fees for his/her service? It is an income

> When you have a job, you will receive a monthly salary or pay cheque as it is called income.

> If your father (or mother) has a job, he/she receives a pay cheque from his office which indicates his/her income. If he/she is a businessman, he/she gets profit as a business income from his/her business.

> Winning from lotteries, card games etc. are to be treated as income

> Gain on sale of a house property will be considered as income.

Gross income is the total amount of income from the following sources of income.

1. Salary income for the work one does.
2. Profits from your business & Fees received for the service one does.
3. Rental income from renting properties.
4. Gain on sale of properties and other assets.
5. Any other income.

Net income is the income after subtracting the deductions allowed under the provisions of Income Tax Act.

Salary income is the amount you earn for working at the office for a certain period. Usually salaries are paid on a monthly basis. But what you receive in your pay cheque is not the gross pay. It is the net pay. **Deductions** are the amounts subtracted from gross pay, which results in your **net pay**. These deductions are usually **taxes**, which are levied by the government and are called income tax . Income tax is a fee or levy charged by the government on the income earned by an individual. There may be other deductions also from the gross pay which could be deductions for different purposes like deductions for lunch provided by the company etc. If you want to see what the kinds of deductions are, you may request your father or mother to show you what their pay-slips really looks like.

For most working people, taxes are the biggest deduction. **Taxes** are fees placed on income, property, or goods to support government programs. These programs may be at a local, state, or central level. These taxes pay for a variety of services we all appreciate and use, like the armed forces, road maintenance, railways etc. Taxes can be classified into two namely direct tax and indirect tax. Direct tax is the tax imposed by the government on one person and paid by the same person. Example: Income tax for the salary earned by a person. Indirect tax is the tax imposed by the government on one person and actually paid by another person. Example: Service tax paid by hotel owner to the government which is collected from the customers.

Subtracting deductions from your salary leaves you with **net pay**, also called your “take-home pay” or **disposable income**. It’s the amount you actually receive. It’s the amount you have available to spend and part of it to save. It’s also a good starting point for creating a budget.

Taxes are a means of income for the government and are utilised for public spending like welfare schemes, education systems, infrastructure development, employment provisions etc. Suppose people do not pay taxes then the government will not get income to provide education for you, pension for your grandfather/grandmother and to build roads/railways on which you travel every day. Also remember tax evasion is a crime and good citizens pay taxes.

Look at how the deductions affect Mr. Ramesh's pay cheque:

XYZ Company Ltd.

Employee Code and Name	: R0007 RAMESH KUMAR		
Grade Code & Name	: M11 SENIOR MANAGER	Department	: SALES & MARKETING
Pay Slip for Month	: May 2010	Basic Salary	: 10000
No. of Days	: 31	Payment Date	: 31/05/2010

	Rs		Rs
BASIC SALARY	10,000	INCOME TAX DEDUCTION	1,000
CITY COMPENSATORY ALLLOWANCE	500	PROVIDENT FUND	1,200
TRAVELLING ALLOWANCE	1,000	LUNCH RECOVERY	500
FLEXIBLE BENEFIT ALLOWANCE	500	PROFESSIONAL TAX	300
HOUSE RENT ALLOWANCE	2,000		
SPECIAL ALLOWANCE	1,000		
Gross Pay:	**15,000**	**Gross Deductions:**	**3,000**
		Net Pay :	**12,000**

Mr. Ramesh works at XYZ Company Ltd., where he is a Senior Manager in the Sales and Marketing Dept. This is the salary slip for the month of May 2010. The gross salary of Mr. Ramesh(Rs. 15,000) is given on the left side of the pay slip and the deductions (Rs.3,000) are given on the right-hand side. The Gross Pay less the Gross Deductions gives the Net Pay (Rs.12,000). All salary-slips may not have the same items as shown here but may vary from company to company. As can be seen from this salary-slip, the various salary incomes are categorized under different heads such as Basic pay, City compensatory allowance etc. These allowances are an amount given by the company and form part of the gross pay. The Gross Deductions of Mr. Ramesh are mentioned on the right hand side which includes income tax and other deductions.

But remember, income does not come only by way of a salary. It can be the pocket money your parents give you, your birthday gift money, interest on bank deposits etc.

Summary:

> Cash is to personnel financial planning as petrol is to car.

> Money coming in includes Income earned from salary, business, gifts, interest on deposits or any other source.

> Gross income is total income earned.

> Net income is got after subtracting deductions allowed under the Income Tax Act.

> Deductions are amounts subtracted from gross pay to arrive at the net pay.

> Net pay is also called as "take-home pay" or disposable income.

Keywords :

Ltd. -Limited; Rs -Indian Rupees

Self-Test questions:

I. Choose the correct answer.

1. _____is the life blood of any business.

   a) Cash b) Labour c) Material

2. Income may be defined as the true _____ in the amount of wealth.

   a) Decrease b) Increase c) Static value

3. What we receive in our pay cheque for the work we did in office is called _____.

   a) Gross pay b) Net pay c) Deductions

4. For most working people, _____ are the biggest deduction.

   a) taxes b) incomes c) allowances

5. Indirect tax is the tax imposed by the government on one person and paid by _____.

   a) The same person b) Another person c) The government

II. Fill in the blanks.

1. _____ income is the amount you earn for working at the office.

2. Income tax is a fee or levy charged by the government on the _____earned by an individual.
3. Taxes can be classified in to two namely _____ and _____.
4. _____ is the subtraction from the gross pay.
5. _____ means 'money coming in'.

III. Match the following.

1.	Income	-	Fees charged on income by the government.
2.	Tax	-	Take home pay
3.	Net Pay	-	Life blood of business
4.	Gross deduction	-	Increase in wealth
5.	Cash	-	Subtraction from salary income

IV. True or false.

1. A budget is a plan for managing money during a given period of time.
2. Income can be received in cash only.
3. When you get money on your birth day from your friend, it is an income.
4. Direct tax is the tax imposed by the government on one person and paid by another person.
5. Winning from lotteries, card games etc. are to be treated as income.

V. Answer the following briefly.

1. What do you mean by income?
2. What do you mean by gross income?
3. What is disposable income?
4. Write a short note 'Net Pay'.
5. What is a tax?

VI. Answer in detail.

1. How do taxes and other deductions affect your income? Explain.

VII. Activities

Gifts, Pocket Money and Small tips that you earn when you buy things for your parents account for your income.

1. How much income do you earn in a week or in a month?
2. List the expenses that you incur.
3. Do you think you really save something?

BUILDING SKILLS BUILDING FUTURE

UNIT 6 : WHAT ARE EXPENSES ?

In this unit we will learn about ;

- **What are Fixed expenses?**
- **What are Variable expenses?**
- **How to build your own budget?**
- **What does Pay Yourself First (P.Y.F) mean and how can it benefit you?**

Please tell me all about expenses!

Money Going Out

We noted during our previous lesson that income can come from a job, an allowance, or even a gift. Now we're ready to talk about spending. The money you spend on your needs and wants may be termed as money going out or otherwise called **expenses**. Your expenses typically fall into one of two categories: fixed and variable.

Fixed expenses have set amounts and are the exact amount incurred every time not depending on usage or consumption. Fixed expenses will not change due to any reason. For example: If you are living in a rented house, the house rent per month will not change over a particular period due to the reason that whether you stayed in the house for the full month or not (Rs. 5,000 per month).

For example: The money you have spent for your school uniform is fixed expense.

Variable expenses can change due to some reasons like usage, consumption etc. which means you usually have more control over them. For example: You might not have stayed in your house for 10 days in a month which will result in reduction of electricity charges due to the reason that you have not used some of the electrical equipment in your house for the said 10 days. For a full month electricity usage, if you will incur an electricity charge of Rs. 1,000, you might incur Rs.600-700 for a period of 20 days usage.

You might go to the movies this week and rent a CD or DVD next week or you might choose between eating at home or going out to dinner with friends. Although it sounds like fun, but if you are low on cash, you might need to consider eating at home with friends since that is cheaper than taking them out for a dinner.

Fixed expenses are regular expenses and you need to pay them by setting aside the required amount from your income. Variable expenses are your wishes and desires. You can control them if you like.

For example: Having ice creams and snacks in the canteen is a variable expense.

The more you spend the lesser is your saving.

Most of your pocket money is spent? **Too bad!!!**

Cash Management

Cash management is how you handle money coming in and money going out. Sometimes it's referred to as "cash flow." As you might expect, there are some tools available to help you manage your money (cash). One of the best tools is a budget.

A Budget is a statement indicating income on one hand and how the income is allocated to various fixed and variable expenses. It indicates the 'money coming in' and the 'money going out' in detail, so that you are aware of how your income is being spent and how you may control your expenses if needed.

Budget for Mr. Ramesh for the month of May 2010

Money coming in:	
Salary (after taxes)	Rs. 30,000
Gifts/Allowance	Nil
Other	Nil
Total Income	**Rs. 30,000**
Money going out:	
Fixed Expenses	
PYF	Rs. 10,000
House loan	Rs. 5,000
Car loan	Rs. 5,000
Total Fixed Expenses	**Rs. 20,000**
Variable Expenses	
Food	Rs. 3,000
Clothing	Rs. 1,000
Eating out	Rs. 1,000
Movies	Rs. 1,000
Total Variable Expenses	**Rs. 6,000**
Total Outgoing (fixed + variable expenses)	**Rs. 26,000**
Any money left over? (Income minus outgoing)	**Rs. 4,000**

Building Your Own Budget

What's the point of having a budget? Remember that a budget is your roadmap to achieving your goals. When you're in control of your spending, you are able to make clear, planned decisions on the best way to spend your money and make your money work for you.

Another reason to have a budget is that, if you're like most people, your money is limited. So it's important to be thoughtful about how you spend your take-home pay.

You have the opportunity to use your decision-making skills and choose how you spend your money. That's where a budget comes in. It helps you use your money for your needs and wants, and achieve your goals. So what does a budget look like? It's quite simple and has two main parts: income and expenses. The trick is simply to balance the two. When they're in balance, or you have some surplus left like Mr. Ramesh has of Rs. 4000/- you're on your way to meeting your goals—the things that are important to you. Notice under fixed expenses the very first item listed. What in the world is P.Y.F?

P.Y.F. ("Pay Yourself First")

P.Y.F. stands for **"pay yourself first,"** and it's a very simple, effective idea. You don't have a choice about paying taxes. It has to be paid to the government. P.Y.F. is the secret to getting what you want and becoming a disciplined saver. Saving is simply setting aside money to spend later. It's a simple trick to grow your money and become wealthy. The more you save the more money you have to meet your goals in life. P.Y.F. (pay yourself first) follows the same principle: don't give yourself a choice. Make it a regular part of your budget to set aside some money to Save. Saving is extremely important to meet your goals. So the moment you earn money first decide to set certain amount aside as P.Y.F., which essentially means saving money. Think of it as a bill you owe to yourself. Why? Because it's the P.Y.F. money in your plan that helps you reach your goals. Put the saved amount in a bank or some other forms of investment and let the money grow. Begin from the day you earn to 'pay yourself first'. The earlier you develop the habit of saving, which is essentially what P.Y.F. is, the better off you'll be in future.

India's top business men like Tata's, Birla's and Ambani's have diversified their business and became one of the richest people in the world only by their planning skills in the management of money and resources.

So earn, spend but remember! It is most important that you Save!

Summary:

> The money spent on your needs and wants are expenses

> Fixed expenses will not change due to any reason.

> Variable expenses can change due to some reasons like usage, consumption etc.

> According to your wishes and desires variable expenses increase or decrease.

> Cash management is how you handle money coming in and money going out.

> Budget is your road map to achieve your goals and making money work for you.

> P.Y.F ("Pay Yourself First") is setting aside money to save later making you a disciplined saver for a better future.

Keywords :

Rs-Indian Rupees; **CD**-Compact Disc; **DVD**- Digital Video Disc; **P.Y.F** -Pay Yourself First.

Self-Test questions:

I. Choose the correct answer.

1. The money you spend on your needs and wants may be termed as _____

   a) budgets b) incomes c) expenses

2. A set amount or exact amount which is incurred every time not depending on the usage or consumption is called as _____.

   a) Fixed expenses b) Variable expenses c) Cash management

3. In a budget table, under fixed expenses _____should be first item which will help us to save money.

   a) Paying loans b) Paying rent c) Pay yourself first

4. Payment of gas bill based on the usage is an example of _____.

   a) Fixed expenses b) Variable expenses c) Income generating expenses

5. _____ is extremely important to meet our goals.

   a) Saving b) Expense c) Loan repayment

II. Fill in the blanks.

1. Expenses can be classified in to two categories namely _____ and _____.
2. _____helps us to use our money for our needs and wants, and achieve our goals.
3. Budget has two main parts namely _____ and _____.
4. _____ is a simple trick to grow our money and become wealthy.
5. _____minus _____is known as money left over for future needs.

III. Match the following.

1.	Expenses	-	Setting aside money
2.	Fixed expenses	-	handling money coming in and going out
3.	Variable expenses	-	no change in total amount
4.	Cash management	-	money going out
5.	Savings	-	change in amount

IV. True or false.

1. Variable expenses can change due to some reasons like usage, consumption etc.
2. Budget is one of the best tools to manage our money.
3. 'Pay yourself first' means spending money for our present needs.
4. The more we save, the more money we have, to meet our goals in life.
5. Cash management is handling of 'money coming in' only.

V. Answer the following briefly

1. What do you mean by expenses?
2. Write short note on Fixed expenses.
3. What is meant by variable expenses? Give an example.
4. What is a budget?

VI. Answer in detail.

1. Describe about cash management and draw a budget table for a month's household income and expenditure.

VII. Activities:

Imagine you are doing professional animation course for two months staying in a hostel at Kodaikanal, your father gives you Rs.10000/- a month for all your expenses, you also get a pocket money of Rs.500 per month.

Your expenses are as follows:

Your budget for the month

Money coming in:

Money given by father	: Rs.10000
Pocket Money	: Rs. 500
Total Money (A)	: Rs.10500

Money going out:

Hostel fees	: Rs. 3200
Breakfast, Lunch & Dinner	: Rs. 2500
Transport to College Bus fees	: Rs. 750
Total Fixed Expense	: Rs. 6450

Variable Expenses:

Laundry	: Rs. 800
Visiting places	: Rs.1500
Amusement park / Movies	: Rs. 500
Shopping	: Rs. 1200
Total Variable Expenses	: Rs. 4000

Total Expense (B) (Fixed + Variable) = (6450+4000)=10450

Any money left over (C) = Rs 50 (A-B)

What would you do if you wanted to take a gift to your parents worth Rs.500?

UNIT 7 : WHAT IS A BANK ?

In this unit we will learn about ;

- **What is a Bank, what does it do?**
- **How to open a bank account?**
- **How to deposit and withdraw cash from a bank?**
- **What are bank account holders documents?**
- **Types of bank accounts?**
- **What is electronic banking?**

What is a Bank, what does it do?

When you earn money and set aside some amount from it to save, what is the first thought which comes to your mind as to where you can put that money. Isn't it a Bank? Didn't some of us have piggy banks which our parents gave us to put coins into? But what we are going to talk about are not piggy banks, but banks where our parents put their money in. We have all heard about banks being mentioned at home by our parents. It is common to hear parents speak about depositing money in the bank or withdrawing money from the bank. So what is a bank and how can it benefit you?

Simply put, a bank is a place where someone can deposit money for saving and safe-keeping and withdraw it when necessary. Banks pay the depositor (also called account holder) an interest in return for depositing the money. If an account holder needs money over and above his savings for say buying a house, a car or starting a business, then banks also lend money to him. This is called as a loan. The loan is given to the borrower (the account holder in this case). An interest has to be paid for the loan. The interest is the amount paid by the borrower to the bank for availing the loan and is usually a fixed percentage of the amount borrowed. For a salaried person a loan is deducted in Equated Monthly Instalments (EMI).

Origin of banking

Banking started in temples and palaces of Babylonia even before 2000 BC as safekeeping of valuables. The Greeks developed a system of transferring money by maintaining book entry with out the physical transfer of money. The Jews and Templers became bankers after the fall of Roman Empire. Later Italians became leading bankers. The first banking institution in India was the Bank of Bengal, which was started in 1809 which did not last long. The Government of India started the Imperial Bank of India in 1921, later in the year 1955, it was renamed as the State Bank of India. Government of India nationalised all large banks in the year 1969 by making payment

to the owners and another set of banks were nationalised by the government during the year 1980. In the year 1994, the government of India decided to permit setting up private banks in India. Some of the foreign banks have been operating in India for over 100 years. At present the largest bank in India is State Bank of India in terms of deposit values and number of branches.

How to open a Bank Account?

To become an account holder with a bank, you need to fill in an account-opening form, submit necessary documents, like copies of address proof, identity proof along with photographs etc. The Account can be opened either in single name or in joint names with members of the family or friends.

Once the necessary paperwork has been completed, a bank account is opened and you become an account holder with the bank. The bank allots a unique account number to you. It also gives you documents like the pay-in slip, cheque book and pass book for your day to day transactions with the Bank. Now a days banks started giving internet banking user name and password for account holders to do banking transactions through internet. Some of the banks provide phone banking facilities also to the account holders.

Deposits and withdrawal

Deposits can be made in a particular bank account by using pay-in slip . The pay-in slip is used for depositing cheques as well as cash into your bank account. The pay-in slip contains the information of your bank account and is an instruction to the bank to deposit the money into your account. Withdrawal Slip enables the customer to withdraw cash from his / her bank account.

The pay-in slip normally contains the following details.

> Name of the account holder

> Bank account number.

> Bank's branch name

> Date of deposit

> Amount to be deposited in words and figures

> Signature of the depositor who deposits money

> Denominations of the currency.

> Details of the cheque which are to be deposited

BUILDING SKILLS BUILDING FUTURE

A format of a pay-in slip is given below :-

XYZ BANK **PAY-IN-SLIP**

Date : Deposited in Branch

Name as appearing in account

ACCOUNT NUMBER

CREDIT CARD NO

PARTICULARS	Rs.	Ps.
TOTAL		

OFFICER

CHEQUE (S) SUBJECT TO REALISATION

Please mention your Account No. & Name behind the Cheque.

XYZ BANK **PAY-IN-SLIP** Date :

Deposited in Branch Account holder's Branch

Name as appearing in account

ACCOUNT NUMBER (For Deposit in Bank Account)

CREDIT CARD NO (For Deposit in Credit Card Account)

TEL. NO. MOBILE NO.

CHEQUE DEPOSIT

BANK & BRANCH	CHEQUE NO.

TOTAL AMOUNT RUPEES (in words)

ONLY

CASH DEPOSIT

DENO.	PIECES	Rs.	Ps.
1000 x			
500 x			
100 x			
50 x			
20 x			
10 x			
5 x			
COINS		Rs.	Ps.
TOTAL			

FOR OFFICE USE

TRAN. ID

OFFICER VERIFYING OFFICER

NOTE Please use separate pay-in-slips for CASH DEPOSIT, LOCAL, OUTSTATION & BANK CHEQUES.

SIGNATURE OF DEPOSITOR

For Cash Deposit of Rs 10 Lacs and above, customer to furnish source of funds separately

PAN is mandatory for cash deposit of Rs 50,000 and above. Please ensure PAN is updated in your account

A format of a withdrawal form is given below:-

NOMINATION FACILITY AVAILABLE

ATM கார்டு மனுச் செய்துவிட்டீர்களா? ATM கார்டு முற்றிலும் இலவசம்

XYZ BANK

சேமிப்பு கணக்கில் பணமெடுக்கும் படிவம்

बचत बैंक आहरण प्रपत्र

SAVINGS BANK WITHDRAWAL FORM

கிளை / शाखा / BRANCH

.....

.....

..... 200 ...

ACCOUNT No.

கணக்கெண் खाता संख्या

ஒரிப்பு: இப்படிவம் காசோலையல்ல இப்படிவத்துடன் பற்றுவரவு கைப்புத்தகத்தை இணைக்கப்படாவிட்டால் பணம் வழங்கப்படமாட்டாது.

नोट: यह प्रपत्र चैक नहीं है। इस प्रपत्र के साथ पासबुक प्रस्तुत न हो तो भुगतान अस्वीकृत किया जायेगा।

Note : This form is not a Cheque. Payment will be refused if the PassBook is not produced with this form.

எனக்கு மட்டும் स्वयं PLEASE PAY SELF ONLY

Rupees .....

..... ரூபாய் வழங்கவும் रुपये दीजिए

மற்றும் இத்தொகையை மேற்கொண்ட என் / எங்களுடைய சேமிப்புக் கணக்கில் பற்று வைக்கவும்

रुपये और मेरे / हमारे बचत बैंक खाते में नामे करें AND DEBIT THE AMOUNT TO MY/OUR ABOVE SAVINGS BANK ACCOUNT

ரூ

रु

Rs.

அடையாள வில்லை எண்

टोकन संख्या Token No.

பட்டியல் எண்

अनुसूची क्रं. Scroll No.

பணம் வழங்குக नकद अदा करा PAY CASH

அனுமதிக்கும் அதிகாரி पासकर्ता अधिकारी Passing Officer

கணக்கு வைத்திருப்பவர்

Account Holder / खातेदार का नाम

கணக்கு வைத்திருப்பவரின் பெயர் / खातेदार का नाम / Name of the A/c. Holder .....

விலாசம் / पता / Address .....

..... தொலைபேசி / दूरभाष / Phone .....

Specimen copy

Name of the account holder

Bank account number.

Bank's branch name

Date of withdrawal

Amount to be withdrawn in words and figures

Signature of the account holder

Address and phone no of the account holder

Bank account holders' documents:-

1. Pass book

The pass book gives a record of all the transactions that have been made in your account. Hence all the payments made/received, from and into the account are recorded in the pass book. Some banks may send a statement periodically by mentioning all the transaction done by you.

A format of a pass book is given below:-

Date	Particulars & Cheque No	Withdrawals	Deposits	Balance	Initials
Account No :					

Specimen copy

2. ATM Card or debit card

An ATM card is a card issued by a bank that can be used at an ATM for deposits, withdrawals, account information and other types of transactions. A debit card is also a type of card issued by banks to make financial transactions in merchant houses apart from cash withdrawals from bank ATM. The payment is made by swiping your debit card in a machine at a shop where you make the purchase. The value of your purchase is automatically deducted from your balance in your bank account. Debit card can also be termed as plastic money as we can use the cards to make purchases.

A format of a ATM Card or Debit Card is given below:-

Specimen copy

1. Cheque book

A cheque is an instrument used for banking transactions. It is a written mandate given by the account holder to his bank to make the payment as per the details mentioned therein. The **cheque book** containing cheque leaves are used for making payments to others and withdrawing cash from the bank account. A cheque book is a very important document and must be kept very safely. The following are the details required to be mentioned in the cheque.

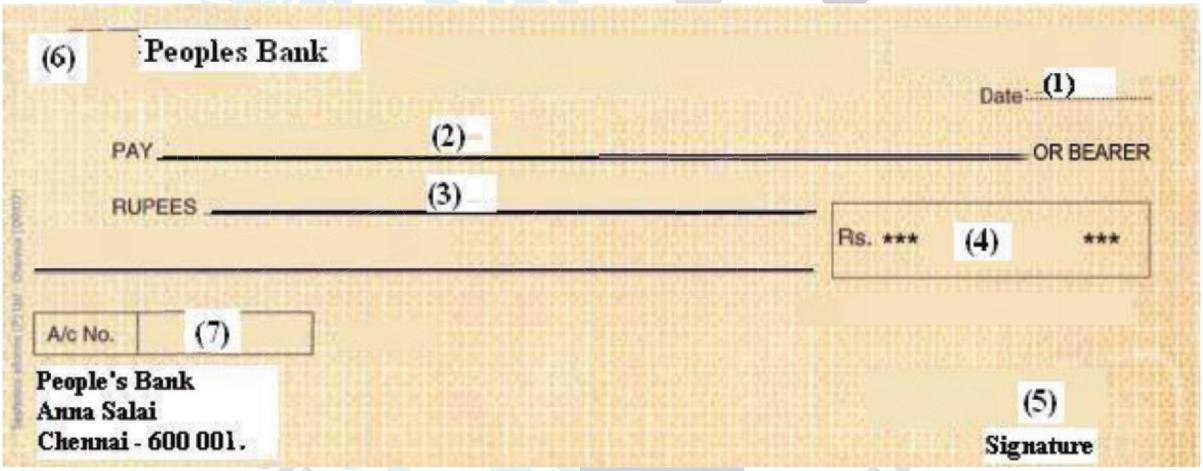
> Date on or after which payment can be made for the cheque,

> Name of the party to whom the payment is to be made,

> The amount to be paid (in figures and words) etc.

The cheque needs to be signed by the account holder otherwise it will be considered invalid. Never sign a blank cheque otherwise anybody can fill in any amount and take the money out from your account.

A format of a cheque is given below :-



Details of the above cheque format:-

(1) Date – has to be filled in compulsorily

(2) Pay – name of the person to whom the money has to be paid e.g. Mr .A. Jeganathan.

(3) Rupees – the amount of money to be paid in words. eg. Rupees Five Thousand only (write this in words)

(4) Rs. – 5000/- (write this in figures)

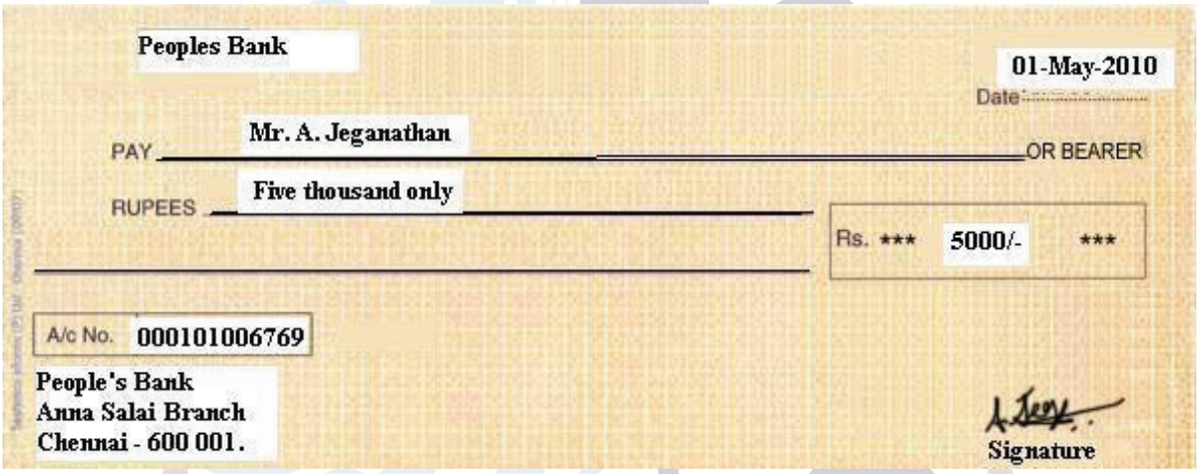
(5) Signature – sign the cheque

(6) Crossing the cheque – if you wish that the amount should be deposited in the

bank account of Mr. A. Jeganathan only and no one else can deposit the cheque in their account and withdraw the money, it is advisable to cross the cheque. Crossing the cheque means drawing two parallel lines on the left hand top corner of the cheque and writing the words 'A/C payee' in between the lines. This ensures that the money is deposited into the bank account of Mr. A. Jeganathan by your bank and no one else can withdraw other than Mr. A. Jeganathan. In case you wish to withdraw for yourself then in the place of Mr. A. Jeganathan, you need to mention as 'Self' without crossing the cheque.

(7) SB Gen A/c No. 000101006769 – this is the account number given by the bank to the account holder

After filling up, the cheque would look like this :


Peoples Bank
01-May-2010
Date
PAY Mr. A. Jeganathan OR BEARER
RUPEES Five thousand only
Rs. *** 5000/- ***
A/c No. 000101006769
People's Bank
Anna Salai Branch
Chennai - 600 001.
Signature

Types of bank accounts

Banks offer different types of accounts in which you can keep your money. Account holders can choose between a savings bank account or current account while opening a bank account.

1. Savings bank account

Savings bank accounts encourage persons to save money on a regular basis. They are opened to inculcate the savings habit. A small amount is enough to open a savings bank account with most banks. You can deposit any amount of money into your savings bank account anytime. Further, you also have the option of withdrawing money anytime from the account. Normally Salaried individuals, students, housewives and retirees among others hold savings bank accounts. Deposits made in a savings bank account earn interest (normally paid twice a

year by the bank). Savings bank account may have some restrictions like limited number of deposits and withdrawals during a particular period.

2. Current account

Current accounts are generally opened by businessmen, companies. Typically the balances maintained in these accounts do not earn any interest. Also account holders are given the facility to overdraw (i.e. withdraw a higher sum than is available) from their current account. The overdrawn money needs to be paid back to the bank subsequently with interest. Current account holders will get benefits like more number of deposits and more number of withdrawals during a particular period.

Other services provided by Banks

Banks also offer a number of other services like accepting payment of telephone bills and taxes like service tax and income tax. They also offer other facilities like issuing credit cards; however most importantly, banks have been a popular destination for making investments. Fixed deposits and recurring deposits have been preferred investment avenues for most.

1. Fixed deposits

In a fixed deposit, the depositor invests a lump sum amount with the bank for a predetermined period. The bank offers a fixed return (interest rate) for the same; typically, the rate is higher than what is offered on the savings bank account. However, the fixed deposit cannot be easily liquidated (i.e. withdrawn and converted into cash). For example, a bank could offer a return of 7% per annum for a 1-Yr fixed deposit. Hence an investor who deposits a sum of Rs 10,000 will get Rs 10,700 at the end of 1 year i.e. Rs 10,000 for the amount invested and Rs 700 towards interest. If the depositor wants his money after a period of one month, he cannot withdraw money immediately with the benefit of return (i.e. interest).

2. Recurring deposits

Unlike fixed deposits, investments in recurring deposits are made over a period of time. Hence investors invest a given sum of money at regular interval for a period like every month or every quarter, at the end of the investment period they get the predetermined amount. For example, an investor could invest Rs 100 every month, for 12 months. At the end of 1-Yr, the investor gets Rs 1,400 i.e. Rs 1,200 towards the amount invested and Rs 200 as the interest.

Automated Teller Machine (ATM)

An Automated Teller Machine is a computerised device that provides the card

holders of banks with access to financial transactions. The ATM facility is perhaps the biggest innovation to enter the banking sector. Banks have restricted working hours and it may not be possible for all account holders to carry out all their banking activities during the stipulated banking hours. ATMs permit account holders to carry out banking activities like withdrawing cash or depositing cheques without manual intervention i.e. at any time and without the help of any banking staff. Hence the account holder doesn't have to depend on the bank's working hours. The ATM is operated using an ATM card and PIN (Personal Identification Number) provided by the bank. Account holders should always keep the ATM card in their safe custody and ensure the secrecy of the PIN to prevent any fraudulent use of their bank account.

Electronic Banking

A number of banks have now started electronic or internet banking, where the account holder need not visit the bank personally but can operate his account from his home through internet. This saves time for the account holder and physical space for the banks. Electronic banking is gaining in popularity as computer usage is spreading in the country. Through electronic banking the following benefits are offered to the account holders by most of the banks.

1. Checking bank balances
2. Checking the banking transactions
3. Bill payment facilities like Electricity bill, Telephone bill payment.
4. Money transfer from your bank account to another bank account.
5. Requesting for cheque book to be sent to your house etc.

Summary:

> A Bank is place where one can deposit money for saving and safe keeping and withdraw it when necessary.

> Banking started in temples and palaces of Babylonia before 2000 BC.

> The Government of India started the Imperial Bank of India in 1921 and nationalized all large banks in 1969. State Bank of India is the largest bank in India.

> A bank account can be opened submitting necessary documents.

> Banks have now started Internet banking or Electronic banking using internet.

> Deposits are made using pay in slips, withdrawal are made using withdrawal slips

> The passbook is a record of all the transactions made in an account.

> Cheque book is an instrument used for banking transaction.

> Banks offer different types of accounts – Savings Account, Current Account, Fixed deposits and Recurring deposits

Keywords :

EMI -Equated Monthly Installments; ATM -Automated Teller Machine;

A/c No -Account Number,

Self-Test questions:

I. Choose the correct answer.

1. Banks pay the depositor _____ in return for depositing the money.

   a) Loan b) Interest c) Allowance

2. When an account holder needs money over and above his savings for any purpose, then banks also lend money to him which is known as _____.

   a) Interest b) Loan c) Allowance

3. The person who gets a loan from a bank can be termed as _____.

   a) Lender b) Borrower c) Depositor

4. After opening a bank account, the bank allots a unique _____number to the account holder.

   a) account b) ledger c) folio

5. _____ can be deposited in ATM.

   a) Only cash. b) Only Cheque. c) Both cash and cheque

II. Fill in the blanks.

1. Bank is a place where someone can _____money for saving and safe-keeping and _____ it when necessary.

2. _____ is the amount paid by the borrower to the bank for availing the loan.

3. ATM card issued by the banks gives the benefit withdrawing _____from the ATM.

4. _____helps you to make banking transactions online without going to the bank or ATM.

5. Fixed deposits and recurring deposits are considered as _____avenues for people.

6. When a depositor invests a lump sum amount with the bank for a predetermined period, it is known as _____.

7. Through internet banking _____can be transferred from one bank account to another bank account.

III. Match the following.

1.	Electronic banking	-	cash deposit
2.	ATM	-	Internet banking
3.	Recurring deposit	-	Written mandate to make payments
4.	cheque	-	cash withdrawal
5.	pay-in slip	-	investment at periodic interval

IV. True or false.

1. The bank account can be opened either in single name or in joint names with members of the family or friends.

2. Your bank pass book gives a record of all the transactions that have been made in your family members' bank account.

3. The pay-in slip should have the date mentioned by the depositor.

4. Crossing the cheque is mandatory when you intend to deposit money in another person's bank account.

5. In general Personal Identification Number is not necessary to make withdrawals from ATM by using ATM/debit cards.

V. Answer the following briefly

1. What is a bank pass book?

2. What is a cheque book?

3. How will you open a bank account?

4. How do you make cash deposit in a bank?

BUILDING SKILLS BUILDING FUTURES

5. When you intend to pay money to a particular person to his bank account by way of cheque, what are to be written on the cheque?

6. What is a fixed deposit?

7. What is a recurring deposit?

VI. Answer in detail.

1. What are the documents we receive after opening a bank account? Explain.

2. What are the contents of a pay-in slip?

3. What are the contents of a cheque?

4. What is electronic banking? What are its uses?

VII. Activities

How does your Piggy Bank look Draw it ?

a) Could you maintain any Fixed Deposit account in it, why?

b) Did you deposit money in regular intervals, How did you operate it?

c) Did you follow any procedure to operate your Piggy Bank Account?

d) Was it fun depositing and saving your money?

BUILDING SKILLS BUILDING FUTURE

UNIT 8 : WHY SAVE ?

In this unit we will learn about ;

- **What is disposable Income and Saving?**
- **How to calculate simple interest?**
- **How to calculate compound interest?**
- **What is 'The Rule of 72' or 'doubling period'?**

What is saving?

It is always nice to live in a big house, own a nice car, go on vacations to beautiful places. We all enjoy these things, don't we? But ask your parents how they are able to provide you with some of these nice things in life and the answer you will get is that they have saved money for it. Savings is keeping aside a part of the money you earn for future needs. It allows you to enjoy the things which you wish to do such as vacations in a nice hill station.

Savings can be termed as disposable income (income after taxes) minus spending.

Disposable Income and Saving

Disposable income = spending + saving

Saving = disposable income – spending (expenditure)

Disposable income comes from the salary you earn, the business income if you are a businessman, gifts of money you may get on some occasions like your birthday etc. From your disposable income you spend money on the various needs in life which are your expenses. Setting aside some of the money and not spending all that you have got is saving. 'Paying yourself first' means saving before spending. Incentives for savings may be many. A desire to buy something for someone or buy something for yourself, to buy a very expensive thing, like a house or a car, to meet emergencies which might arise etc. It all depends on what are the goals you have chosen in life. Achieving those goals requires savings. Start saving early in life, so that as time goes you have more and more money to enjoy things.

The money you have saved earns interest. Interest allows your money to grow and become more than what you originally saved. In short, money saved is money earned.

The interest is usually paid by a bank or a company where you have deposited the money you have saved. There are generally two types of interest you can earn. These are :

Simple Interest

When money is borrowed, interest is charged for the use of that money for a certain period of time. The money you saved and put in the bank is used for some period of time by the bank and then returned to you. When the money is paid back, the principal (amount of money that was borrowed) and the interest is paid back. The amount of interest depends on the interest rate , the amount of money borrowed (principal) and the length of time that the money is borrowed. Simple interest is the interest paid only on the principal amount borrowed. No interest is paid on the interest accrued during the term of deposit.

The formula for finding simple interest is:

Interest = Principal (amount of initial saving) X Rate (of interest being paid on saving) X Time (in years).

If Rs.100 was deposited for 1 year at a 10% interest rate per year, the interest would be Rs.100 X (10/100) X 1 = Rs. 10. The total amount that would be due after one year will be Rs.100 (principal) + Rs. 10(interest)= Rs. 110.

The interest earned in this case is Rs. 10.

Compound Interest

Compound interest is paid on the original principal and on the accumulated past interest. In our previous example we calculated the simple interest on a sum of Rs. 100 which worked out to Rs. 10 each year. This is because the interest was being calculated on the original principal amount of Rs. 100 only.

Suppose instead of this, we calculate from the second year onwards, the interest not only on Rs. 100 (which is the original principal) but also on what you earned as an interest in the first year (Rs. 10), what would things look like.

In the first year you earned Rs. 110 (Rs. 100 the principal and Rs. 10 as interest).

In the second year, calculate the interest on the amount of Rs. 110.

Rs.110*(10/100)*1 = Rs. 11.

Now, you have earned Rs. 21 in two years.

Rs. 10 for the first year and

Rs. 11 the next year.

This is called as compound interest (at 10% per year), where you earn interest on the accumulated principal and interest every year. Do this calculation for 5 years.

Compound interest allows savings to grow dramatically over the long term. This is also known as compounding (interest on interest).

Table 1

Interest earned on an initial Rs. 100 saved at 8% interest rate

Year	Simple Interest Adds	Total Saving using Simple Interest	Compound Interest Adds	Total Saving using Compound Interest
1	Rs. 8	Rs. 108	Rs. 8	Rs. 108
2	Rs. 8	Rs. 116	Rs. 9	Rs. 117
3	Rs. 8	Rs. 124	Rs. 9	Rs. 126
4	Rs. 8	Rs. 132	Rs. 10	Rs. 136
5	Rs. 8	Rs. 140	Rs. 11	Rs. 147
6	Rs. 8	Rs. 148	Rs. 12	Rs. 159
7	Rs. 8	Rs. 156	Rs. 12	Rs. 171
8	Rs. 8	Rs. 164	Rs. 14	Rs. 185
9	Rs. 8	Rs. 172	Rs. 15	Rs. 200

The Rule of 72 or doubling period

All savers would like to know that if they keep a certain sum of money in a bank or save it in some other place, how quickly will be money double. If you save Rs. 100 today how fast will that amount become Rs. 200. Well it depends on what is the compound interest you are earning on the saving and by a factor called as the Rule of 72.

The 'Rule of 72' is a simplified way to determine how long a saving will take to double, given a rate of interest. By dividing 72 by the rate of interest, you can get a rough estimate of how many years it will take for the initial saving to double itself.

Example : Compound interest being earned is 8% per year. Initial savings is Rs. 100.

For Rs. 100 to become Rs. 200 at a compound interest of 8% it will take, 72 / 8 = 9 years.

In 9 years your money would double if you earn a compound interest of 8% per year.

So, you have understood that it is worth saving and putting the money in a bank and earning an interest on it. Over time this money grows. This is also called as 'investing÷ your money. You have invested your money by depositing in a bank. The bank pays you an interest, which is the 'return' on your investment. Investing money helps money to grow in future so that you can achieve the goals you had set for yourself. The Rule of 72 tells you how fast you can double your money. But remember all investments need not be in a bank, it can be in shares, debentures, bonds, properties, gold, silver, insurance etc.

Summary:

> Savings can be termed as disposable income (income after taxes) minus consumption spending.

> Disposable income = consumption + saving.

> Saving = disposable income - consumption.

> P.Y.F - Paying yourself first means saving before spending.

> Simple interest is the interest paid only on the principal amount borrowed.

> Compound Interest is paid on the original principal and also on the accumulated past interest.

Keywords :

Principal - The amount of money borrowed; Interest Rate -Interest being paid on principal;

Self-Test questions:

I. Choose the correct answer.

1. Mr.Raja has invested Rs. 7,000 in a bank that offers him 7 % compound (yearly) rate of interest. What would be his expected return after 3 years?

   a) Rs. 8470 b) Rs. 8575 c) Rs. 7490

2. As per " Rule of 72" how many years will your money take to double if compounded at the rate of 6%?

   a) 8 years b) 10 years c) 12 years

3. The amount of money that an investor will need to reach his investment goal is based on which of the following?

   a) Principal amount only b) Interest only c) Principal amount and interest

4. Compounding is

   a) interest on principal and interest earned already

   b) principal amount and interest on principal

   c) Principal amount only

II. Fill in the blanks.

1. Savings can be termed as _____ income minus consumption spending.
2. Generally there are two types of interest which we can earn namely _____ and _____.
3. An amount of Rs. 1,00,000 which compounds at the rate of 10% per year will become _____ after 2 years.
4. As per Rule of 72, when a yearly compounded investment of Rs.500 becomes Rs.1000 in 6 years, the rate of return is _____ %.

III. Match the following.

1.	Rule of 72	-	Interest on principal only
2.	Simple interest	-	Doubling period
3.	Compound interest	-	Savings before spending
4.	Pay yourself first	-	Savings after consumptions
5.	Disposable income	-	Interest on principal & interest earned already

IV. True or false.

1. Paying yourself first" means saving after spending.
2. The amount of interest earnings depend on the interest rate, the amount of money borrowed (principal) and not the length of time that the money is deposited.
3. In simple interest calculation, interest is calculated on the interest accrued during the term of deposit.
4. Compound interest will give more earnings for the depositors than the simple interest.
5. The Rule of 72 tells you how fast you can double your money.

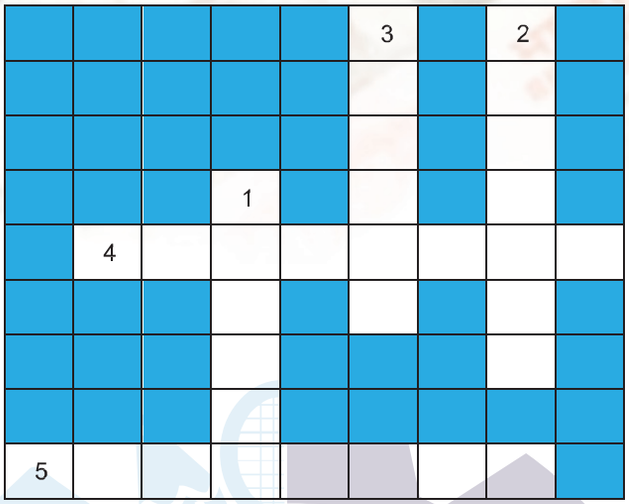
V. Answer the following briefly

1. How will you calculate simple interest?
2. How will you calculate compound interest?

VI. Answer in detail.

1. What are the different types of interests calculated for the investments?
2. Explain the term doubling period with an illustration?

VII. Crossword puzzle



Down:

1. Savings are for _____ needs.
2. This is being calculated after deducting spending from disposable income
3. This type of interest is only on the principal amount

Across (from right to left):

4. Rule of 72 is also known as
5. The amounts of return for the deposits are depending on this rate.

VIII. Activites

You are 10 yrs old. On your 10th Birthday your grandmother has given you a gift of Rs.3000, You wish to save it for three years and purchase a Bicycle for your self. As you are eligible to ride a bicycle when you are 13 years old you wish to invest the gift amount for three years. How would you plan to invest to earn enough interest to get the sufficient amount of Rs.3470 to buy your favourite Hercules Bicycle.

Gift given	: Rs.3000
No of years wish to save money	: 3
Required amount	: Rs.3470
Amount to be earned in 3Yrs to buy a Cycle	: Rs.470

What rate of Compound Interest will you choose to earn the required amount to buy your Hercules Bicycle?

UNIT 9 : SETTING GOALS

In this unit we will learn about ;

- **What is a Goal ?**
- **How to Set a Goal?**
- **SMART Goals?**
- **How to achieve goals ?**

Let's say you decide to visit a relative's house in a nearby town. You reach that town and take an auto to reach your relative's house. At that time, you observe that the address slip which you had in your pocket is missing and you are not able to locate it. The only thing in your mind would be to reach the destination. If your mind is blank then you will stay at same place. In simple terms, if we don't have goals, we will find it difficult to progress. In this particular case, the goal would be to reach your relative's house.

1. So, what is a Goal?

Goals can be defined as things we want to achieve in life, towards which we direct our efforts. Let us assume that your goal is to run a marathon race. You don't want to start of and run at full speed right at the beginning and later realize that you are unable to finish. If you know in advance that distance to be covered is long, you can plan your pace and ensure that you achieve the goal. Similarly if there are time bound goals eg. studying for examinations, you know that time available to you is limited to cover the syllabus, hence you make a schedule and study accordingly to complete the syllabus.

Hence, goals help us to be focused and work out a plan to achieve them.

Goals are achievable when supported by proper plan and effective execution.

We are likely to set ourselves many goals in life, all goals follow the same principles. One such goal that is important & essential for our wellbeing is the Financial Goal.

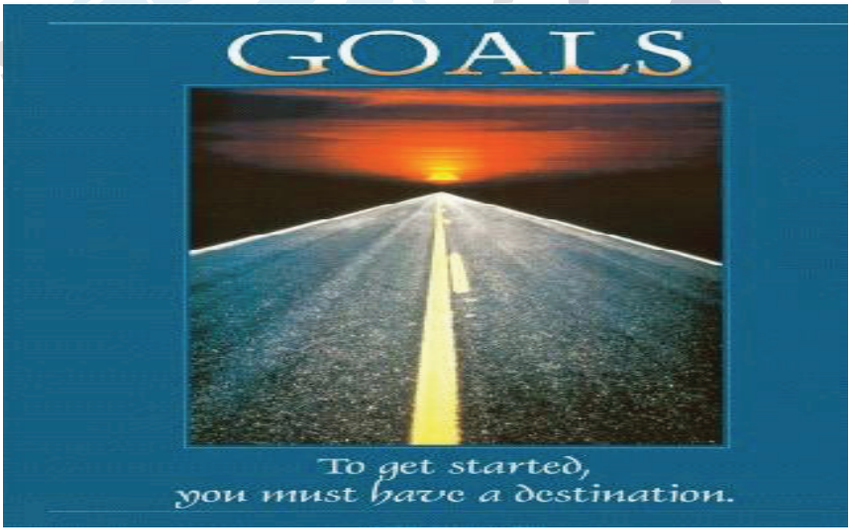
It is rare that every one have enough money to spend on all our wants. Even rich people do not have enough money to meet all their wants. Hence, it is required to set our priorities and plan our financial goals to have a secure future.

2. How to set goals?

- The start point is to set a long-term goal. Visualize how your future should be after 25 or 30 years. This overall picture will guide you to set your goals.

- Then breakdown these into a number of smaller or short term goals, which will help you to achieve your long term goals.

Eg. When to start? Today itself



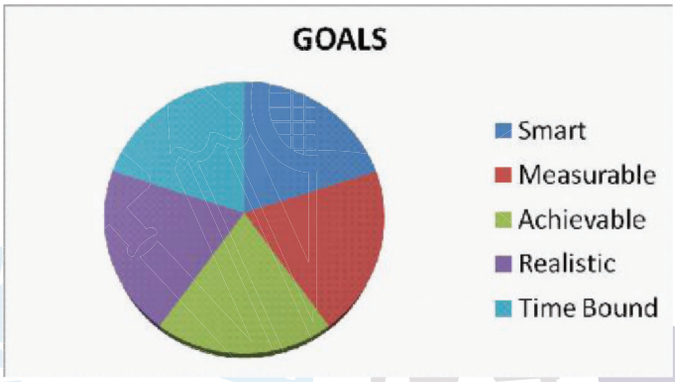
This is the one that reflects our lifetime ambition. Our entire life revolves around attaining this Goal. The long term goal may be pertain to our career, education, family, children, social service, wealth, health, social, spiritual etc.

4. Short-Term goals

The longest journey starts step by step. The long term goals may be broken down into many number of short term goals. Start working on these short term goals. Once you taste the success of achievement, then it will become a habit and you can achieve the long term goals easily.

5. Goal Statement

A Goal Statement should consists of 5 Key elements -



Goal should be

Specific not General

Measurable – We can tell when we have completed

Achievable – It should be within our means

Realistic – based on the resources available to us

Time bound – should be completed within time frame specified

It is easy to remember these key elements for goal setting – Specific, Measurable, Achievable, Realistic, Time bound

In short – SMART Goals are always achieved.

Here is a famous Goal Statement from john F Kennedy

"This nation should dedicate itself to achievingthe goal, before this decade is out of landinga man on the moon and returning him safely to Earth".

As we can see from the example, we can see that it is

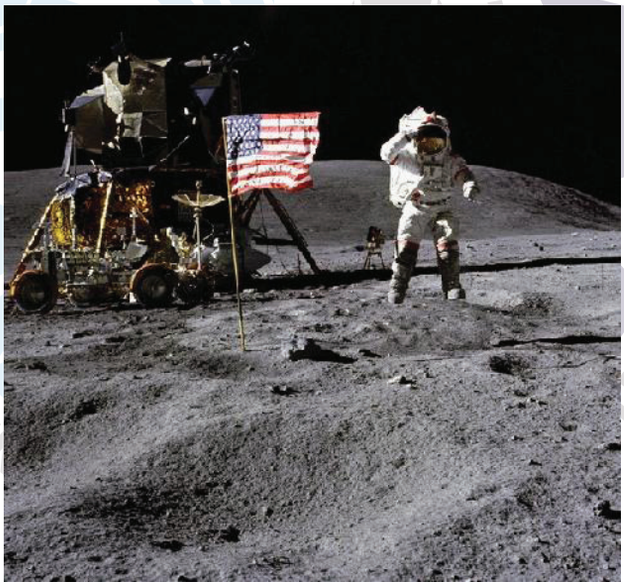
Specific - Of landing a man on the moon and returning him safely to Earth,

Measurable – We will know that it is completed when the man lands back

Achievable – All though it was not easy, but it was achievable for scientists to achieve this goal

Realistic – With resources committed from the US Government, it was possible to think of this mission

Time bound "before the decade is out," as time frame of the goal, is the last component.



It was a SMART Goal and so it was achieved.

Goals come from our values. What you believe is important it will lead you to choose certain goals. Finally and most importantly, Goals should be challenging. If it is not challenging, we may not be interested in it after some time. Challenging Goals can be achieved by breaking them into to smaller milestones. Do celebrate and keep yourself motivated after crossing each milestone.

It is not that we will achieve the goals all the time. Sometimes we may figure out in the middle that goals are becoming difficult and we may not achieve it. Instead giving up on the goal, we must look at revising/revisiting our Goal statement and try to rework the quantum of achievement.

A good example of Financial goal setting is

1. I will save ₹ 50,000 before 2015, to pay for buying my own vehicle, by saving ₹ 1000 per month for the next 3 years from my pocket money

   1. Specific : Saving for Vehicle
   2. Measurable : When ₹ 50,000 is saved the goal is achieved
   3. Achievable : If you save ₹1000 per month for next 3 years, goal is achievable
   4. Realistic : It possible to save ₹1000 per month. (We are assuming that you save more than ₹1000 per month)
   5. Time Bound : Goal as to achieved before end of 2015.

Some examples of unachievable goals.

1. I will save ₹ 50,000 in next 3 years by saving ₹ 1000 every month (This goal has the specific purpose missing, you are not sure why you are saving for, if you don't know why you are saving then you will loose interest soon and it may not be achievable as you will stop saving)

2. I will save some money in the next 3 years by saving ₹ 1000 every month from my pocket money every month (This Goal cannot be measured in the end. You never know when to stop)

3. I will save ₹ 50,000 in next 3 years

4. I will save ₹ 50,000 (This goal has everything missing)

5. I will save ₹1000 every month (This goal also has everything missing)

6.Steps for achievable goals

Goals should be set as positive statements. Negative statements are mental blocks. We play a game not to loose, but to win. Your goal should enable you to act towards its attainment

The goals should be something you really want, and not something that sounds good. The goals that you set must be consistent with your values. The short term goals should enable you to attain/achieve the long term goals.

✓ One goal should not contradict other goals. Your goal may be to became a player in the Indian Cricket Team since you have sound technique. However, yoy are lazy to get up in the morning to train for your fitness.

✓ Assign priorities. All goals cannot be achieved at the same time. Depending upon the circumstances, you shall assign priorities and work towards the goal which is having highest priority.

7. Achieving goals.

Plan to achieve your goals. Make sure you start doing things that you can do today. In the beginning of this chapter, it was mentioned that you had lost the address to go to your relative's place, you should look at alternatives to ensure you reach the destination. In the same manner, we should anticipate obstacles and plan to overcome to achieve your Goals.

Summary:

- ✓ Goals are things we want to achieve in life
- ✓ Goal statement consists of 5 key elements
- ✓ SMART goals are always achieved

Self – Test questions:

I. Choose the correct answer.

1. Goals can be defined as things we want to _____ in life
   a) Achieve b) Play c) Follow
2. Goals help us to be _____and work out a plan to achieve them
   a) Focussed b) lazy c) Active
3. Goals are to be supported by proper
   a) Guidance b) Plan c) Timing
4. _____ goals are always achieved
   a) Handsome b) Beautiful c) SMART
5. Goals come from your
   a) Thoughts b) Values c) Idea

II. Fill in the blanks.

1. If a goal has to be achieved, it has to become part of our
2. Goal should be _____ and not general

3. A goal statement should consist of _____key elements
4. When we figure out that our goals are becoming difficult, we must look at _____ our goal statement
5. Goals should be set as a _____Statement

III. Match the following.

1.	Specific	–	It should be within our means
2.	Measurable	–	To be completed within time frame
3.	Achievable	–	Should not be general
4.	Realistic	–	We can tell when we have completed
5.	Time bound	–	Based on resources available to us

IV. True or false.

1. Short term Goals are dependent of Long term goals
2. A statement "I will save Rs.2000/-" is an good example of SMART goal.
3. Goals come from your values.
4. Goals have to be time bound.
5. A goal statement consist of 3 key elements.

V. Answer the following in one word or in a sentence.

1. Expand SMART.
2. Give 2 examples of Long Term Goal & Short Term Goal.
3. How can a goal be measured?
4. What is Time bound in a goal statement?
5. What is a goal?

VI. Answer the following briefly.

1. How goals are achieved?
2. Give a brief note on "Realistic" aspect of a Goal?
3. What are the conditions for goal setting?
4. What are the characteristics of SMART goal?

VII. Answer in detail.

1. What are the elements of Goal statement?
2. Provide a good example of financial goal setting?

UNIT 10 : SYSTEMATIC SAVINGS AND INVESTMENTS

In this unit we will learn about ;

- **What is Savings ?**
- **Investments and types of investments?**
- **Time Value of Money**
- **Systematic Investment Plan**
- **Net Asset Value**

1. Savings

Saving is the activity of setting aside a part of cash/kind for further use. The loss to saving could be wasteful expenditure or non economical spending. For example, when a particular sum of money is intended for buying all your stationary requirements, it is a wasteful expenditure if you use the money for buying chocolates and ice creams and it is a non economical spending if you buy only one note book by using the entire money. You may ask questions like – How can buying chocolates could be a wasteful expenditure? How can buying one note book could be regarded as non economical spending? When you are given money to fulfill all your stationary requirements, if you spend that money for some other purpose, it is wasteful and if you buy only one costly note book, it is non economical spending. ie, (value of money is not realized)

Savings can be defined as “the portion of disposable income not spent on consumption”.

Many of us use the words “saving” and “investing” interchangeably. But they are quite different. Saving is storing money safely like putting cash in a bank or locker in your house or purse etc. to meet out upcoming expenses or

Basis	Savings	Investment
Meaning	Excess of income over Expenditure.	Employment of funds in financial or real assets
Purpose	To meet out future expenditure or investment.	To make profit out of money.
Time period	Savings are for shorter period.	Investments are comparatively for longer period.
Source of money	People use their own money.	People may use borrowed funds also to invest.
Returns	The return of savings is fixed	The return on investments is not fixed due to reasons like market conditions, demand etc.
Risk	Since there are no chances of fall in value of savings, risk is nil or less.	Since there are chances of fall in value of investments, possibility of risk is more.

emergencies. But, this kind of "saving", you earn nothing or a low, fixed rate of return and you can withdraw or have access to your money, easily. Saving is the first step to investments. Since, without savings, investments cannot take place. The differences between savings and investments are as follows:

2. Investment

Investment means employment of funds in Financial or Real assets with an element of risk involved in respect of return and the principal amount with the hope of deriving future benefits. An investor is expected to be compensated for

i) Sacrificing current consumption

ii) Effects of inflation and

iii) Risk taken.

Investments can be made in any one of the following assets.

Financial assets:

i) Equity shares

ii) Preference shares

iii) Share warrants

iv) Exchange Traded Funds (ETFs)

v) Global Depository Receipts (GDRs)

vi) Units of mutual funds

vii) Debentures

viii) Debt securities

ix) Commercial papers

x) Deposits with companies and banks

xi) Post office savings certificates.

xii) Provident Fund investment(PF)

xiii) Insurance policies.

Real assets:

i) Real estate

ii) Gold

iii) Silver

iv) Diamonds

v) Art pieces/Artifacts

vi) Stamps

vii) Coins

viii) Antiques

3. Speculation

Short term investments are known as speculation. In speculation there is an investment of funds for a short period to get some returns.The speculator makes use of the fluctuations in the movement of price of an asset and has high risk. There are two main categories of speculators in stock market namely bulls and bears.

4. Why investment?

Anyone can choose investment with the objective of the following:

i) To get return on investment in the form of dividend, interest, capital gain and capital appreciation.

ii) To earn above inflation.

iii) To safeguard the funds from various theft.

iv) To get tax advantage like deductions and exemptions from income.

v) To create collateral security for future needs.

Calculation of return on investment

$$\text{Holding period return} = \frac{\text{(Sale Value of the price – Purchase price) + Cash received}}{\text{Purchase Price}} \times 100$$

Illustration 1.

Mr.Surya purchases a company's share for ₹900 and sold it for ₹1000 after a period of 1 year. During the period, he also received a dividend of ₹ 35. Find out the return.

$$\text{Return} = \frac{(1000 - 900) + 35}{900} = \frac{135}{900} \times 100 = 15\%$$

5. Time Value of Money

A fixed sum of money given now and given after a period of time has different values. Time value of money is a concept that addresses the way the value of money changes over a period of time. For example, if you are given an option to receive ₹ 1,000 today or after 5 years, what will be your choice? Your answer must be receiving the money today. Because, any product you want to purchase today for ₹ 1,000 may not be sold or made available for the same amount after 5 years. So the money you receive today is worth more than the promise or expectation that you will receive on a future date.

6. Interest

Interest is a charge for borrowing money, usually stated as a percentage of the amount borrowed for a specific period of time. Simple interest is computed

only on the original amount borrowed. It is the return on that principal for one time period. In contrast, compound interest is calculated each period on the original amount borrowed plus all unpaid accumulated interest. The power of compounding is shown below.

When a fixed sum of ₹1,000 is invested with an interest rate of 10% per year the returns are as follows.

Year	Returns in ₹ when Simple Interest is taken	Returns in ₹ when Compound Interest is taken
1	110	110
2	120	121
3	130	133.1
4	140	146.4
5	150	161.1
6	160	177.2
7	170	194.9
8	180	214.4
9	190	235.8
10	200	259.4
15	250	417.7
20	300	672.7
25	350	1083
30	400	1745
35	450	2810
40	500	4526
45	550	7289
46	560	8018
47	570	8820
48	580	9702
49	590	10672
50	600	11739

Illustration: 1. Calculation of Future value of one time investment.

What is the future value of today's investment of ₹100 after 5 years if the interest rate is 5% and compounded annually?

Formula: $FV = PV\ (1 + i)^{N5}$

FV = Future Value, PV=Present Value, i=Interest rate, N=Number of years

FV = ₹100 (1+ .05)

FV = ₹100 (1.2763)

FV = ₹127.63

Illustration: 2. Calculation of Future value of series of investment.

A person invests ₹ 100 at the end of every year which gives him 5% interest compounded annually. What is the future value of this investment after 5 years?

Method 1.

FV = ₹ 100 $(1+ .05)^5$ + ₹ 100 $(1+ .05^4)$ + ₹100 $(1+ .05^3)$ + ₹100 $(1+ .05^2)$ + ₹100

= ₹ 552.6

Method 2.

FV = A $(1+r)^n$ / r

FV = 100 X 5.526 = ₹552.6

A = Annual Investment, r = Rate of interest, n = Number of years

Method 3.

It can also be calculated with the use of Future Value Interest Factor for an Annuity Table.

FV = A ($FVIFA_{5\% \text{ and } 5 \text{ years}}$)

FV = 100 X 5.526 = ₹552.6

Illustration: 3.

What is the present value of ₹121 to be received after 2 years, when discounted at 10%?

PV=FV [1 / $(1+r)^n$] or PV = FV ($FVIF_{10\% \text{ and } 2 \text{ years}}$)

PV= Present Value, FV=Future Value, r= Rate of return, n=Number of years

PV = 121 [1/ $1+0.10)^2$]

PV= 121 [0.82645] = ₹100

7. Systematic Investment Plan (SIP)

Investments can be made at one time or at regular interval like recurring deposit. Systematic Investment Plan is the investment of a fixed amount in any of the financial assets at regular interval. It is the simple and timely investment strategy for accumulating wealth and capital appreciation.

Salient features of SIP

- It allows the investor to buy units on a given date every month or every quarter.
- The investor is free to decide the amount to be invested
- Small amounts can also be invested.
- Tax benefits are available for specified SIP schemes.

Summary:

- ✓ Saving is "the portion of disposable income not spent on consumption"
- ✓ Investment is employment of funds with the hope of deriving future benefits.
- ✓ Short term investments are known as speculation.
- ✓ Systematic Investment Plan (SIP) is investment of a fixed amount in any of the financial assets at regular intervals.

Self – Test questions:

I. Choose the correct answer.

1. Savings is the activity of setting aside a part of _____ for further use.

   a) Cash/Kind b) Life c) Investments

2. Savings can be defined as" the portion of disposable income not spent on _____

   a) Consumption b) Expenses c) Investment

3. _____ term investments are known as speculation

   a) Long b) Short c) Medium

4. Time value of money is a concept that addresses the way the value of _____changes over a period of time.

   a) Life style b) Currency c) Money

5. _____interest can be computed only on original amount borrowed

a) Compound b) Simple c) Weighted

II. Fill in the blanks.

1. Savings is _____of income over expenditure
2. Investments are for_____period.
3. Under Savings people use their _____money.
4. Investments can be made in _____or _____ assets.
5. SIP is investment of a _____amount in any of the financial asset at regular interval.

III. Match the following.

1.	Saving	–	Bulls and Bears
2.	Investor	–	Small amounts can also be invested
3.	Speculation	–	Excess of income over expenditure
4.	Investment	–	Sacrificing current consumption
5.	SIP	–	To earn above inflation

IV. True or false.

1. Currency is a form of Real Asset.
2. Investment is to make losses out of money
3. Savings are for shorter period.
4. A fixed some of money given now and given after a period of time has different values.
5. Tax benefits are not available for SIP.

V. Answer the following in one word or in a sentence.

1. Expand SIP.
2. Define Savings?
3. What is Speculation?
4. Define simple interest?
5. What is compound interest?

VI. Answer the following briefly.

1. List three types of Real assets & Financial assets?
2. What is Investment? What are the objectives behind Investment?
3. Differentiate between Simple Interest and Compound Interest?
4. Calculate the future vale of today's investment of Rs.100/- after 1 years if the interest rate is 6% and compounded annually?

VII. Answer in detail.

1. Differentiate between Savings & Investment?
2. What is Systematic Investment Plan?

BUILDING SKILLS BUILDING FUTURE

UNIT 11 : MAKING A BUDGET

In this unit we will learn about;

- **Budgeting**
- **Household Budgeting**
- **Tips for preparing a Household Budget**
- **Personal Budget**
- **How to adhere in your Budget?**
- **Types of Expenses**

1. Budgeting

As we have put down the SMART Financial Goal, the next step is to create the activity list to achieve the goal. One of the critical activities to achieve the financial goal is to prepare a budget as to how you propose to allocate your earnings. Making budget is a simple task, but adhering to the budget is the most difficult task. While you don't require any specific skill to prepare budget, you need extraordinary discipline to adhere to the budget you have prepared.

A budget enables you to track as to how you propose to allocate the money that you have. It helps you manage your limited financial resources more efficiently so that you can achieve your goals.

A household budget is a financial plan in which you allocate the family earnings towards various expenses and savings. The expenses include repayment of a loan, children education, purchase of essential commodities like milk, vegetables, fruits, medical & electricity bill etc. What is the use of having a household budget? The household budget offers many advantages as follows:-

(i) Through household budgeting you can exercise control over money. Otherwise money will exercise control over you.

(ii) Budgeting helps you to prevent reckless spending.

(iii) Above all it helps you to have peace of mind without financial worries.

2. How to prepare the household budget

Just as the Central Government gets assistance of Financial Ministry in preparing the Union Budget, we as family should sit together to prepare the family Budget. This is nothing but an Income/Expenditure statement for a month for the family.

2.1 Steps in preparing the family budget.

Step 1.

Family Monthly Income:

The various sources of income may be salary, rental income of let out property, interest on bank deposits, returns from other investments etc., All the above sources of income are to be listed separately and this constitutes total monthly income.

Step 2.

Family Monthly Expenses

The expenses include the house rent, groceries, electricity bill, repayment of all loan(s), school and college fees, medical expenses and insurance premium etc. One should be realistic to account for all expenses.

Step 3.

To allocate the income towards various expenses.

When the expenses are well within our income there is no deficit. When the expenses exceed the income, there is deficit. There may be some expenses which are essential. Grocery bill is an item of expenditure which cannot be avoided. Some expenses can be avoided and some can be altered. For eg, If children wants to go on a costly vacation trip that can be convinced into buying them new dress/ toys.

Step 4.

Methods of Allocating Funds
Income-Expenses=Savings

a) An old method of allocating funds as per budget is to make few envelops for various heads of expenditure such as house rent, groceries, insurance premium, Repayment of loans etc. Every month, insert the allotted money in those envelops. If any money is left out, it can be used for savings or for discretionary spending. While making payment for an expense, take the money from the appropriate envelops. If money is exhausted postpone further spending to the next month. If any money is left out in an envelop it can be used for the next month.

b) Alternatively, one can prepare the budget in a paper or a notebook. We can allocate the amount for various heads of expenditure. While we spend, the appropriate heads are to be accounted and totalled. One should ensure that the expenses does not exceed the Budget allocation for respective heads.

After all, a household budget is only a document expressing family's thought into action. Its success depends upon one's willingness to adhere to it.

Otherwise household budget will not be a successful one.

2.2 Tips for preparing a Household budget.

(i) For one month write down all your expenditure.

(ii) Do not change your spending habit. We must analyze our expenditure first and put them into various categories of Expenses. Doing this will help you to understand whether you are spending it right or not. If you are able to avoid any unnecessary expenditure, it will help you to save money.

(iii) Avoid taking Loans unless there is actual requirement. Save Electricity and thereby reduce Electricity Bills by switching off all electrical appliances at your House. Pay utility bills on time before the due date so that you can save late payment fees. If you are tempted to buy an item which is not in your mind buying, try postpone the same for 24 to 48 hours and if you still feel the urge then you may buy them

(iv) Involve all family members for analysis and compromises.

All members of the family must be involved at the time of preparation of budget. If this is done, there is a commitment from the family. Children must also be involved in every manner possible. It is a good idea to engage them in discussion at the time of purchasing any goods or household articles since they get an opportunity to take part in decision making and would also help them in future.

(v) Make budgeting a participative affair.

Encourage participation & discussion among the family members. Every member's view should be analysed. Head of the family to reject any member view with reasoning. It helps the family to be cohesive and committed.

(vi) Budgeting is not confined to spending alone.

Through household budgeting, you allocate your income to various expenditures. In case your expenditure exceeds your income, what will you do? In those cases you should find out ways and means to increase your income which matches your expenditure or reduce your unnecessary expenditure.

(vii) Live your life.

Don't attempt to copy others. You spend your earnings by choice. You buy those things that is absolutely necessary for you and which has value for money. Don't buy something just because your neighbor or friend has bought it.

(viii) Don't try to be rigid.

Budgeting provides a macro plan for your life. Instead of applying rigidity, try to be flexible. For example, the thread that is used to fly the kite does not prevent the kite from flying but the thread give the kite to fly within certain boundaries or limits. Also remember that a kite cannot fly without a thread.

3. Personal Budget

You may get money from number of people – Father, Mother, Grand Parents etc and you may also get these at different time periods. Your father may give on a weekly basis, and mother daily, your grand parents may give you only during special occasions like your birthday or festivals. Similarly you may spend the money in different ways, like buying, snacks or you may end up paying for stationery items, books, etc. Budget will help you plan and balance money received and money spent. Any money that is left after your expenses is the savings that you are able to create. This savings is the key element which enables you to fulfill your financial goals.

There is a difference between good budgeting skills and making and keeping a budget. By creating a budget you can decide on how you will use your money. Adhereing to a budget requires lot of effort and discipline. Being a good money manager will help you achieve your goals.

As mentioned earlier, it may not be easy to adhere to a budget, but by practice over a period of time we will become disciplined. To improve our budget control we must review periodically. A budget review helps us to identify deviation of any and also reaffirms the current status.

3.1 Analysis of Budget Deviation.

Analyse and focus on expenses which went beyond our control and where we have exceeded our budget. These expenses need to be further classified into

- Discretionary expense
- Non-Discretionary expense

Discretionary expense is an expense where we can have better control and Non-Discretionary is an expense which cannot be controlled by us.

One example of Non-Discretionary expense is a medical emergency. We never know when we fall sick, and some times it could be serious and we may end up spending a lot of money. You have no control over this, and we cannot do anything about it.

Discretionary expenses are those where we have absolute control over the expenses. For example, we have budgeted to spend only ₹ 50/- on biscuits and when we go to shop we see a huge sign board saying buy 4 for ₹60/- we get easily attracted and spend ₹ 60/- to get more biscuits. It will so happen that we may not be able to eat what we bought and we take back home to put in Freezer and forget it. We could have gone ahead and purchased one ice cream as the current needs are fulfilled.

Thus, it is important we analyze every expense that exceeds our Budget, if they are discretionary in nature, we must slowly establish control over these expenses. Over period of time, we learn to control our discretionary expenses and start managing our expenses as planned.

Summary:

- ✓ Make budgets to achieve financial goals
- ✓ Budgets help in balancing between money received and money spent
- ✓ To improve budget control one must review every month
- ✓ Expenses are classified into discretionary and non discretionary expense.

Self Test Questions

I. Choose the Correct Answer.

1. A household budget is a _____ plan

   a) Personal b) Family c) Financial

2. Budgeting helps you to prevent reckless _____

   a) Spending b) Income c) Saving

3. Making budget a _____affair

   a) Personal b) Participative c) Non-Participative

4. _____is an expense where we can have better control

   a) Non-Discretionary b) Saving c) Discretionary

5. By creatiy a _____ you can decide on how you will use your money

   a) Budget b) Chart c) Diagram

II. Fill in the Blanks.

1. One of the critical activity to achieve the financial goal is make _____for your expenses.
2. A _____budget is your financial plan in which you allocate the family income towards various expenses and savings.
3. _____is the key element which enables you to fulfill your financial goals.
4. To improve our budget control we must do _____eve ry month
5. Creating a budget will help you plan and balance between money _____and money _____

III. Match the following.

1.	Household Budget	–	Income / Expenditure Statement for 2 months
2.	Family Budget	–	Expense that cannot be controlled
3.	No deficit	–	Review every month
4.	Non-Discretionary	–	Exercise control over money
5.	Budget Control	–	Expense within our income

IV. True or False.

1. A budget enables you to become aware of how money comes in and where it is spent.
2. By creating a budget you can decide on how you will use your money
3. Discretionary expense is an expense where we cannot have better control
4. It is not advisable to involve all members of the family at the time of preparation of budget.
5. Savings is any money left after your Expenditure

V. Answer the following in one word or in a sentence.

1. What is a Budget?
2. What is Household Budgeting?
3. Give Examples for Discretionary & Non Discretionary Expenses?
4. What is Savings?
5. What is Budget Review? When is it required?

VI. Answer the following briefly.

1. Differentiate between Discretionary & Non Discretionary Expenses?
2. What is Personal Budget? In your opinion, how one can adhere to his Budget?
3. Define

   a) Savings b) Income c) Expenditure
4. What are the advantages of a Household Budget?

VII. Answer in detail.

1. What are the Tips for Preparing a Household Budget?
2. Being a good money manager will help you achieve your goals on time. Explain.

REVISION – TEST PAPER I

I. Answer the following briefly.

1. Write short notes on the following

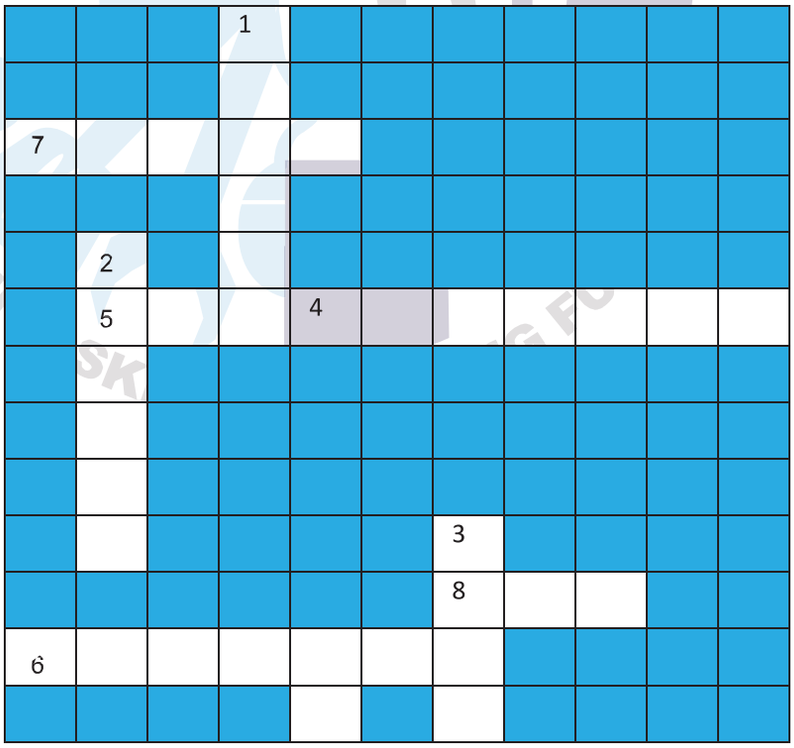
   a) Barter system b) Symbolic money

2. Write short notes on Trade.
3. "Money should not be easily reproduced by people". Why?
4. Distinguish between direct tax and indirect tax.
5. What do you mean by rule of 72?

II. Answer in detail.

1. Describe the history of money.
2. What are the steps in financial planning? Explain.
3. What type of expenses are controllable? Why?

III. Crossword puzzle



Down:

1. Written mandate to the banker to pay money (6 alphabets)

2. The first bank started in India was Bank of (6 alphabets)

3. We deposit _____ in the bank. (4 alphabets)

4. Making two parallel lines in the top left corner of a cheque is called (8 alphabets)

Across (left to right):

5. This kind of banking is online. (10 alphabets)

6. This type of bank account is preferred by most of the people in India. (7 alphabets)

7. This type of deposit gives more interest. (5 alphabets)

8. This card is used to withdraw money from computerized machines. (3 alphabets)

BUILDING SKILLS BUILDING FUTURE

REVISION – TEST PAPER II

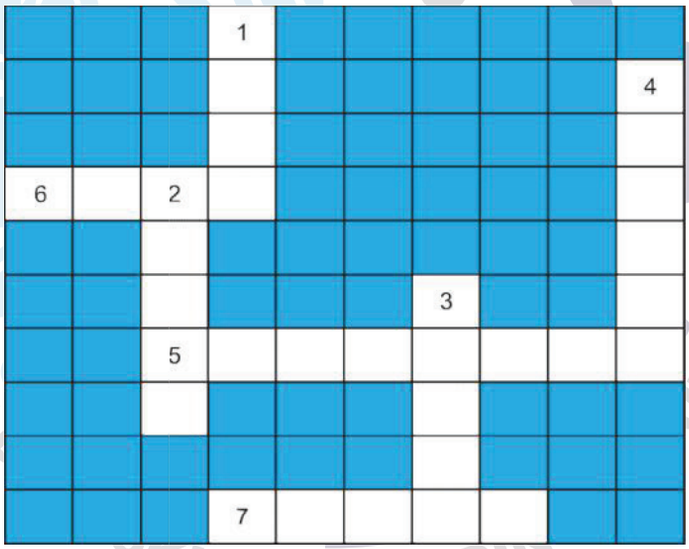
I. Answer the following briefly

1. What is goal setting?
2. Write short note on implementing the plan of action.

II. Answer in detail.

1. Explain modern currencies used in different countries.
2. Describe the three key roles of money?
3. What do you understand by the term “pay yourself first”? Explain.
4. What are the different types of bank accounts which are available?

III. Crossword puzzle



Down:

1. Currency of Argentina is Argentine _____ (4 letters)
2. Currency of India (5 letters)
3. Fraction of Rupees (5 letters)
4. Paper currency reappeared in (6 letters)

Across (left to right):

5. Money is the medium of (8 letters)

6. Currency of France (4 letters)

7. This type of currency is popular nowadays (5 letters)

IV. Activities

Your friend Mr. Ajay wishes to throw a party for his friends on his Birthday which falls six months later. He has saved Rs.500 from his pocket money every month, so that he can celebrate his birthday grandly with Rs.3000, Have a look at the Budget to achieve his goal.

Budget for the party:

Cake	700 (Cake bought at Hot Breads)
Snacks	650 (Lays, Chips, Bingo, Kurkure, etc)
Cool drinks	400 (1Ltr,2Ltr Pepsi, Coke,7UP, Frooti, etc)
Decorations	500 (Decorations bought + Self made)
Arrangements for games & Prices	250
Return gifts	600
Total	3100

He wishes to buy a video game for himself, if he can save some money.

Ajay come to you for help to save some money for to purchase video game you lend your expertise advising him to analyze his plan.

Create another Economical plan. Redraft the Budget for Ajay's Birthday Party.

ANSWER KEY

Unit 1	I	1. Barter system 2. China 3. Lydians 4. Precious metals 5.Medium of exchange
	II	1. Money 2. Salt 3. Bronze Age 4. Symbolic 5. Minting 6.Swedish Stockholm Bank
	III	1. Butter 2. Snails 3. Wampum 4. Precious metal 5. Bronze in the shape of tools and shells.
	IV	1. Barter system 2. Coins 3. Paper Money 4. Bank Notes
	V	1. Bronze 2. Wampum 3. China 4. Barter 5. Money 6.1ndia 7.Minting 8.Rice
Unit2	I	1. Survival 2. More skilled 3. Limited 4. Hard to carry 5. 5000 BC
	II	1. Money 2. Medium of exchange 3. Furs 4. Currency I Unit of exchange 5.Euro
	III	1. Division of labour 2. Good at hunting 3. A basic item used by everyone in the past 4. Paise 5. Surplus beyond the personal need
	IV	1. True 2. True 3. False 4.True 5. False
Unit3	I	1. It must be readily acceptable 2. Decrease over time 3. Relatively scarce 4. Divisible into usable quantities
	II	1. Durable 2. Stored 3. Divisible 4.Trading
	III	1. Standard of value 2.Readily acceptable 3. Long lasting 4. Difficult to produce in abundance 5. Usable quantities
	IV	1. False 2. True 3. True 4.True
Unit4	I	1. Plan 2. Money 3. An ongoing process 4.Want 5. Needs
	II	1. Financial planning 2. Time and Money 3. Quality 4. Destination 5. Analysing
	III	1. Direction to plan of action 2.Basics of life 3. Increases the quality of life 4.Telling the truth 5. Matching resources with goals
	IV	1. True 2. True 3. True 4. False 5. False
	V	1. Setting goals 2. Analyse information 3. Create a plan 4.1mplementing the plan 5. Monitor and modify the plan
	VIII	1. Three 2. Modify 3. Value 4. Needs 5. Specific 6.Wants 7. Money
Unit5	I	1. Cash 2. Increase 3. Net Pay 4. Taxes 5. Another person
	II	1. Gross 2. Income 3. Direct tax and Indirect tax 4.Deductions allowed 5.1ncome
	III	1. Increase in wealth 2. Fees charged on income by the government. 3.Take home pay 4. Subtraction from income 5. Life blood of business
	IV	1. True 2. False 3. True 4. False 5. True
Unit6	I	1. Expenses 2.Fixed expenses 3. Pay yourself first 4. Variable expenses 5. Savings
	II	1. Fixed and Variable 2. Savings 3. Incomes and Expenses 4. Pay yourself first 5. Incomes, Expenses
	III	1. Money going out 2. No change in total amount 3. Change in amount 4.Handling money coming in and going out 5. Setting aside money
	IV	1. True 2. True 3. False 4. True 5. False

Unit7	I	1. Interest 2. Loan 3. Borrower 4. Account 5.Both cash and cheque
	II	1. Deposit and withdraw 2. Interest 3. Cash 4. Internet banking I Online banking 5. Investment 6. Fixed 7. Money
	III	1. Internet banking 2. Cash withdrawal 3. Investments at periodic intervals 4. Written mandate to make payments 5. Cash deposits in banks
	IV	1. True 2. False 3. True 4. True 5. False
Unit8	I	1. Rs. 8575 2. 12 years 3. Principal amount and interest 4. Interest on principal and interest earned already
	II	1. Disposable 2. Simple and Compound 3. 1,21,000 4. 12%
	III	1. Doubling period 2. Interest on principal only 3. Interest on principal and interest earned already 4. Savings before spending 5. Savings after consumptions
	IV	1. False 2. False 3. False 4. True 5. True
	VII	1. Future 2. Savings 3. Simple 4. Doubling 5. Interest

Revision - Test Paper I

III	1. Cheque	2. Bengal	3. Cash	4. Crossing	5. Electronic
	6. Savings	7. Fixed	8. ATM		

Revision - Test Paper

III	1. Peso	2. Rupee	3. Paise	4. Europe	5. Exchange
	6. Euro	7. Paper			

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