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INCOME MANAGEMENT

For the first time, when Meena got her pocket money, her mind started thinking of all that she wanted. She at once began to think of her requirements for the month. She wanted to enjoy an ice-cream also with her money. Soon Meena realized that her money was not enough to meet her requirements, as well as provide her with an ice-cream. The problem that Meena was facing now was to decide upon how to use the money, so that she could satisfy her needs and her desire for an ice-cream.

You may have also faced a similar situation in your life. Money that you have may be your pocket money or your monthly income. You must have also wished that your money could 'stretch' to satisfy all that you needed and desired. Wishing is not the solution to such a problem. The solution lies in the planned utilization of money.

In this lesson, you will learn how to plan the use of your money.



OBJECTIVES

After reading this lesson, you will be able to:

- define the term 'family income' and discuss its components;
- enumerate the guidelines for preparing an expenditure plan;
- explain the term 'income management' and discuss the process;
- maintain a record of family income and expenditure;
- discuss the need and methods of supplementing family income;
- explain the concept of 'saving' and 'investment';
- discuss the role of financial institutions in money management;
- select a suitable investment scheme on the basis of certain characteristics.



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13.1 FAMILY INCOME

As the name suggests, income means anything which comes into the family and which is used to satisfy the needs of its members. What comes into the family? You may just say "money". But, besides money, there are also goods and services, which may flow into the family and may be used for the same purposes like money. Thus you can now define income as:

Fig. 13.1

Income for a family comprises of money, goods and services that are available to the family to fulfill its needs and desires.

Let us learn more about these.

Money

Money is the hard cash you get in hand. It is generally called money income. It may be obtained from various sources such as :

- from your place of work, e.g. service, business
- from rent, if you have given whole or part of your house on rent
- from the interest that you get by putting your money in a bank account
- from household production e.g. making pickles, toys and garments, which you sell.

Goods and Services

Your family may also enjoy various goods and services such as:

- the house you stay in, may have been provided free of cost by your employer or Government.
- your car may have been provided by your company
- your kitchen garden may give you a good produce of vegetables
- you utilize your energy to do household chores, instead of employing paid help
- you stitch clothes for your family, instead of getting them tailored
- you take regular care of your equipment. As a result, not only will it provide you better service, it will also save on repairs.

These goods and services enjoyed by your family are collectively known as real income.

$$\text{Family income} = \text{money income} + \text{real income}$$

Needs

Needs are deficiencies which must be fulfilled. You need food to live and keep healthy. You need clothing and shelter to protect your body.

Food, clothing and housing are therefore, your basic needs. They are the needs which help you survive. There are other needs which make your life easy. For example, to move from one place to another easily, you will require a bus, a cycle, a scooter or a car. But if you have none of these you will walk. Bus, cycle, scooter or car make it easy for you to commute.

Make a list of some other needs which help make your living easier.

Desires

When all your needs are fulfilled you begin to think of meeting your desires. What you desire is not really needed to carry on life, but still you wish to have it. For example, you may desire to have some wall hangings for your house or you may like to have a three bedroom house in a particular locality.

You may say, needs are those requirements which are needed to make life easy while desires are things which you feel happy to possess. With money, you can buy all that is required to satisfy your needs and desires. Your need of a fan and your desire to have a carpet - both can be bought with money. Your needs and desires can also be fulfilled by the goods and services available to your family. Your need of a house may be fulfilled by the company in which you work. Your desire to have a well-tailored dress may be fulfilled by the use of your own or your mother's skill.



Activity 13.1: Find out the sources of income for your family and any two other families known to you. Record and compare them with the list given in your text.



INTEXT QUESTIONS 13.1

1. Analyse and state whether the following are sources of money income (MI) or real income (RI).
 - (a) Making pickles for your family (.....)
 - (b) Growing vegetables and selling them (.....)
 - (c) Baking cakes on order (.....)



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- (d) Stitching your own clothes (.....)
- (e) Students coming to you for tuition (.....)
- (f) Cleaning your car everyday (.....)
- (g) Getting interest from the money deposited in bank (.....)
- (h) Attending to electrical repairs of your house yourself (.....)
- (i) Being provided with a scooter by your company (.....)

2. Read the following paragraph and then answer questions (a) and (b)

Mr. Lal and Mr. Anand both get a salary of Rs. 5000 each. Mr. Lal’s office provides him with free lunch as well as petrol expenses for his scooter. Mr. Anand’s office has provided him a free living quarter, near the office.

- (a) Which of the two men are enjoying a higher income?
- (b) Give the reason for your answer.

13.2 EXPENDITURE

Expenditure is the money spent on buying different goods and services, required by the family.

Goods

You need various things for your daily living. For example, you need food items, pots and pans to cook the food in, soap to wash dirty clothes and an iron to iron your clothes. If you look around in your house, you will see various goods, each one of which is useful to you.

Make a list of goods you have in your bathroom.

Services

Services are utilities, which make your living easy. For example, you want to talk to a friend living in a different city. You need not visit her. You can telephone her, sitting at home. Besides telephone services, what are the other services you enjoy in your house? Yes, electricity and water service. If you want to go out to work you have the service of public transport available to you. If you ever fall sick you can go to a government hospital. Some other services that all are availing of are the police protection, fire services and sewage disposal.

Look around your locality and see what services it offers you.

All these goods and services have to be paid for. The money which you spend on them is known as **expenditure**.

13.2.1 GUIDELINES FOR PREPARING AN EXPENDITURE PLAN

If you want to get good returns from the money you spend then you need to make a spending or an expenditure plan. A spending plan tells you how to spend your money judiciously. You need to consider the following while making such a plan.

- The money income which you get in hand, has to be divided into various areas of expenditure such as food, clothing, housing, education, transportation, household services entertainment and savings.
 - As you have learnt earlier, food, clothing and housing are your basic or primary needs. The rest of the above mentioned needs are your secondary needs. Obviously, while spending money, you will first consider your primary needs.
 - The way you divide your money for spending will depend upon the importance you give to the various areas of expenditure. For example, if you give more importance to clothes than food, you will keep aside more money for it. You may spend less money on education, if you feel it is not very important for your family.
 - Make sure that the amount of money you keep for each area is sufficient to cover the expenses of that area for the full month. For example, if you have kept aside Rs. 1000 for food it should suffice you till the end of the month.
- If you have money left over after your primary and secondary needs are met, you can think of fulfilling some desires. Desires will first include some comforts for your life. If money is still left over, it may include some luxuries. Comforts are more easily affordable than luxuries. The following example will help you to understand this.

Once your need for a house is fulfilled, you will want to buy things which will make your house comfortable. You may buy a desert cooler or a fan. When most of your comforts are met you may think of luxuries for yourself. You may now buy an air-conditioner.



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Thus you can summarise the order of satisfying needs and desires as follows:



Fig. 13.2
Primary needs



Fig. 13.3
Secondary needs



Fig. 13.4
Luxuries

- While your present needs and desires are being fulfilled, you also need to think of your future needs. There may be some needs in the future, the fulfillment of which, requires a large sum of money. For example, a marriage. Your regular income at that time may not be enough to fulfil that need. What would you do to help yourself in a situation like that? Yes, you can keep aside, some part of your money income for such future needs. This is known as **saving**. To be able to save ensure that at all times your total expenditure is less than your total income.

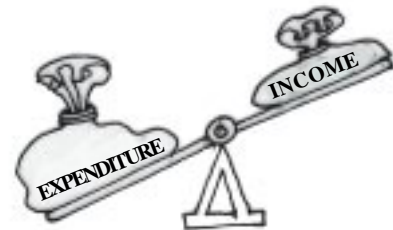


Fig. 13.5



INTEXT QUESTION 13.2

- 1) Mark a tick (✓) on the item on which you should spend first. Give a reason for your choice.
 - (a) Going out for a holiday or buying a refrigerator.
 - (b) Buying ice cream or buying nutritious food for your children.

- (c) Buying a mixer grinder or replacing ordinary curtains with fancy ones.
- (d) Buying enough warm clothes for winter or buying a vacuum cleaner.
- (e) Buying a house or arranging for a holiday abroad.

13.3 INCOME MANAGEMENT

Income management is the planned and controlled use of the family income.

You have read about the various areas of expenditure in a family which have to be met with your money income. The income needs to be spent in such a way that money is available for expenditure throughout the month. This process of distributing money over various items of expenditure is called income management.

13.3.1 PROCESS OF INCOME MANAGEMENT

In lesson 10 you have learnt about the steps and process of management. Let us see now how we can apply those steps for income management.

Planning the use of the family income: You have already learnt about this while learning to make the spending plan of your income. Make sure you keep away a part of your income as savings, while you plan your expenditure.

Controlling the use of the family income: You can control and keep a check on your expenditure in two ways:

- (i) Make sure that money is not wasted. For example, buy just the right quantity that is required by the family and avoid wastage. Buy from co-operative stores or wholesale markets, where things are cheaper, to save money.
- (ii) Make use of your time, energy, skill and knowledge to cut your expenses. Do you remember what is this known as? Yes, you are right, it is real income. If the use of your income is well planned and controlled, your needs, as well as your desires, will be fulfilled.

There is no readymade plan for using money. Families with identical incomes will not necessarily have identical needs and desires. For example, two families, each earning Rs.5000 per month will not be having the same needs and desires because one may be staying in a village and the other in a city. Their management of income will, therefore, be different, i.e. based on their own needs and desires.





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13.4 MAINTAINING A RECORD OF INCOME AND EXPENDITURE

Now that you have made a spending plan for your family, it is important to ensure that the plan is carried out carefully. In order to do this, it is necessary for you to have some control over the spending of money.



Fig. 13.6

One simple way to have control could be to maintain a record of the income and daily expenditure of your family.

A sample of the daily record is given below:

Table 13.1 Income and Expenditure Record

Date	Income in Rs.	Item Purchased	Quantity	Rate	Amount Spent in Rs.	Balance
1.2.07	5000	Rice	15 kg	Rs 10/kg	150	4522
		Atta	20 kg	Rs 10/kg	200	
		Sugar	5 kg	Rs 15/kg	75	
		Butter	1/2 kg	Rs 106/kg	53	
					478	
2.2.07		Rajmah	3 kg	Rs 30/kg	90	3997
		Oil	5 Litres	Rs 52/lt.	260	
		Soap powder	1/2 kg.	Rs 110/kg	55	
		Dress piece	2m.	Rs 60/m	120	
					525	
3.2.07		Ghee	2kg	Rs 60/kg	120	

You can use a notebook or a register to write this day-to-day account. Details like quantity, rate and the amount spent on the items purchased can be recorded in separate columns. This income column is important in a family where income flow



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is irregular or where there may be 2-3 sources of income. The balance column, if filled in daily, will tell you how much money is left at the end of each day. To get your balance for the day, add all the expenses of the day and subtract the total from the balance of the previous day. For example, in Table 13.1 the total amount spent on 1.2.04 is Rs. 478.

Therefore, income minus total expenditure of the first day, is Rs 5000 - 478 = Rs 4522

The total amount spent on the second day is Rs 525. Your balance at the end of the second day would be the previous balance minus total expenditure on the second day, or Rs 4522 - 525 = Rs 3997

You will observe that the figure in the balance column will decrease day by day. How do you feel, when the money in your pocket keeps decreasing? Yes, you are reminded to put a check on any unnecessary expenses, or any other item not listed in your spending plan.

13.4.1 ADVANTAGES OF MAINTAINING A RECORD OF INCOME AND EXPENDITURE

Maintaining a record of expenditure helps you in the following ways:

- Understand your expenses to know exactly how much is being spent and on what.
- Check unnecessary spending - A look at the balance figure will remind you to spend only on what is really needed by your family.
- Compare the expenditures of different months - if your expenses for this month are higher than last month you will know exactly where and why you have spent more.
- Plan for the future - regular maintenance of accounts makes it easier for you to know how much money would be required for the various items in the future.
- Be well informed of market trends - the rate column shows you when and how prices rise in the market.



INTEXT QUESTION 13.3

1. State whether the following are true (T) or false (F). Justify your answer.
 - a. Management of income is important only when you have a large income.
 - b. When you have a small income it is managed by itself.
 - c. When needs are too many income management is out of question.



- d. When desires are too many income management is useful.
 - e. First step in income management is to make an assessment of your income.
2. Mr. Singh's salary is Rs 10,000. If his total expenditures for the first 9 days of are Rs 2156, Rs 1099, Rs 756, Rs 644, Rs 500, Rs 300, Rs 402, Rs 650 and Rs 806 respectively, calculate the balance of his salary on the 10th day.



Activity 13.2: Keep a record of income and expenditure of your family for two months and compare the expenditure on various items.

13.5 WAYS OF SUPPLEMENTING INCOME

If you belong to a family where the regular income is not enough to cover all the expenses of a family, what would you do? Obviously, you would try to add to your regular income in some way or the other.

Adding to the income means supplementing family income.

How do you do it?

Some of the ways of supplementing income are as follows:

- Adopt any income generating activity: Women sometimes make pickles and jams at home and then sell these. Using their skill, time and energy while at home, they earn money to provide some income. Some women stitch clothes on order, some knit, make stuffed toys or give tuition. Any activity which helps in bringing in some extra money is called an income generating activity.
- Take up a part time job: in your neighbourhood, you may have seen some boys, girls or women taking up jobs in homes or shops for two hours/day or half a day only. They may be babysitting or maintaining accounts or doing any other work. Such jobs for a limited period of time are called part time jobs and bring lesser amount of money as compared to the regular full time jobs. But such jobs are spare time jobs and are good for supplementing family income.
- Invest savings to earn interest: If you have money, invest it. By investing, you not only keep your money safe and away from the temptation of spending, but also earn interest on it which can be added to your monthly income.
- Make wise use of available resources: If you have a big house, a part of it can be given out on rent. Your tractor may not be needed by you all the time. You could let another farmer use it, on payment.

Supplementing family income does not merely mean bringing in more money. Cutting some expenditure on items like entertainment, going on holidays; doing your

cleaning, washing and ironing yourself are some of the ways of saving expenditure. You know that "money saved is money earned"!



Activity 13.3: If you are talented in cooking you can use your skill to earn some extra money. Suggest at least three ways in which you can use your talent for supplementing your family income.



INTEXT QUESTIONS 13.4

1. Comment on the following statements. Justify your answers (at least two points).
 - (a) Using a part of your house for commercial storage is a way of earning money.
.....
.....
 - (b) Engaging a servant for doing household chores in order to take up a part time job is a good choice to earn extra money.
.....
.....
 - (c) Getting a full time job is always better than getting involved in income generating activity at home.
.....
.....
 - (d) An income generating activity is the only good answer for supplementing family income.
.....
.....

13.6 WHAT ARE SAVINGS AND INVESTMENTS?

As you have learnt earlier, saving for any month is the part of family income that is deliberately put away for future use in. The soaring prices and the increasing needs and desires of the family members make it difficult for the homemaker to save. But it is the duty of every household to plan their expenditure and thus put aside some money from the present income for future use. This money, accumulated over the months, accounts for the family's savings.

Money from the present income that is put aside for emergency or future use is known as savings.



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13.6.1 NEED FOR SAVING

Irrespective of the income group you belong to, you must save. There are several reasons for you to save. Some of them are predictable while others are not. Some of the reasons for saving are:

- **For a secure future :** After retirement there may be no source of income or pension which is anyway much less than one's regular monthly salary. The expenditure of the household remains more or less the same. Savings can help bridge the gap. One feels comfortable if one has some income from savings. This comfortable feeling will be felt even more by people in non-pensionable jobs, where the income becomes nil.
- **For meeting emergencies:** Someone in your family may suddenly become seriously ill or may meet with an accident. In either case, the person may require immediate medical attention at home or in hospital. You need to save for such unforeseen situations.
- **Fulfilment of family's goals:** Savings are also required for fulfilling a family's long term goals. For example, some of the goals of your family may be to buy curtains, to provide fancy clothes for the family, to buy a house, a car or a tractor. The former two goals can be achieved fast, as not much expenditure would be required for them. To buy a house, car or tractor, you would need a large sum of money. You will have to gradually save for a number of years, to be able to buy any of these.
- **To raise the family's standard of living:** All of us always want to have more and better things for our house. Most of the articles which raise our standard of living, like washing machine or television, are expensive. Buying these articles from our monthly income may be difficult. You can start saving for them and buy them only when you have saved enough. If you wish to have these gadgets quickly, you can purchase them on instalment basis. You may ultimately pay more this way, but you also enjoy their benefits earlier.
- **For starting a small business or for self-employment:** You or any of your family members may want to start a small business. You need some capital or a lumpsum money to start with. Your accumulated savings will provide you the money needed.



Fig. 13.7 Fulfilling family goals

13.6.2 GUIDELINES FOR SAVING

To accumulate savings, you need to plan carefully–

- Have a realistic saving plan - if you are earning Rs 5000, can you save Rs



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2000? No. Your family’s expenses cannot be met with just Rs. 3000. The amount you need can be saved gradually over a number of months in small amounts.

- Have a regular saving plan – if you want a large saving to accumulate, you will need to save every month for a few years.
- Be clear about the purpose for saving - if you know your goal for which you are saving, it becomes easier for you to save.



INTEXT QUESTIONS 13.5

- Write two reasons for which each of the following families will save.
 - Mr. Lal, a middle-income man is working in a private firm. He has two college going daughters. Mrs. Lal is a heart patient.
.....
.....
 - Mr. and Mrs. Swamy are in their early forties. They have a school-going son, who wants to become a doctor. This middle-income family lives in a rented house. They wish to have a high standard of living.
.....
.....
 - Mr and Mrs Bose are a middle-aged couple having no children. Mr. Bose, a chartered account works in a private firm. They live in a rented house.
.....
.....

13.6.3 INVESTMENTS

You have learnt that your savings are not for present use. They are collected to be used at a future date.

If you keep your savings at home

- if does not grow
- there is a chance of if getting stolen
- there is a temptation to use the same to fulfill some present desire.

In order to avoid the above, put your savings in a bank or any other saving institution. Here, your savings are not only kept safe, but they also grow.



When savings are made to grow, it is called investment.

For example, you have saved Rs 10,000. If you keep this money at home, it will remain the same even after many years. But if you keep this money in a bank, it will earn interest and grow. The longer you keep it, the more it will grow.

There are a number of other ways in which you can invest your money. You will read more about them later in this lesson. But first you must understand how to choose an investment scheme out of the many available.

13.7 ROLE OF FINANCIAL INSTITUTIONS

There are a number of benefits of keeping your money in financial institutions:

- i. They keep your money safe.
- ii. They make your saved money grow by paying interest.
- iii. You can withdraw your savings as and when you need them.
- iv. They give you loans against your investments.

13.7.1 COMMON INVESTMENT AVENUES

You may invest your savings in any of the following institutions

- (i) Bank
- (ii) Post-office
- (iii) Provident Fund
- (iv) Life Insurance Company
- (v) Unit Trust of India
- (vi) Stock Exchange
- (vii) Private Company
- (viii) Property or jewellery

i) Banks

Money not required immediately and can be saved in a bank. The advantages of keeping money in a bank are :

- Your money is safe.
- Your money grows since you get interest on your deposits.
- You can withdraw money from the bank whenever you need it.



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- You can take a loan against your money kept in the fixed deposit of your bank account.

How to open a saving accounts in a bank?

Your request for opening a saving account will have to be made on the prescribed form of the bank. Besides giving the relevant particulars, you will need to furnish the specimen of your signature and copies of two passport size photographs. You will need to be introduced to the bank by a respectable party, i.e. a customer, an employee of the bank or some other well known person. This way, the bank satisfies itself about your integrity, honesty and financial standing. After this, the bank will accept your initial deposit and give you the following:

- A pass book - it serves as a copy of your account in the books of the bank.
- Cheque book - it is to be used for withdrawing money from the bank.

The account may be opened by a single person or jointly by two or more persons. Either of the persons can operate the account. A nominee's name has to be mentioned. You can start a savings account with Rs. 1000 but this may be changed by banks at any time.

Nominee is a person who would get the saved money in case the account holder dies.

ii) Post-office

Similar to a bank account, you can also save money in the post-office. Saving in a post-office has the following advantages:

- they are conveniently located
- you can start a savings account even with a very small amount, i.e. Rs 20.
- you do not have to pay income-tax on the interest earned in many of its schemes, like National Saving Certificates (NSC), Indira Vikas Patra, etc.
- you can also get rebate in income-tax by investing in many of its schemes. The method of opening an account is the same as that in a bank.



Activity 13.4: Visit a bank and a post office to find out the various savings schemes offered by them and the income tax rebate on the schemes.

iii) Provident Fund

To protect the salaried people in old age after retiring from service, the Government has introduced 'a retirement benefit scheme' called the Provident Fund Scheme. The main purpose of the scheme is to provide for compulsory saving out



of the current income of the employee. The employer gives the employee the saved amount together with the interest at the time of retirement.

While the money accumulates in the fund, the Government uses it for the development projects in the country. So, by investing in Provident Fund, you serve two purposes.

- you provide for yourself in old age, and
- you help in the development projects of the country.

The main features of Provident Fund are :

- Every month, a certain percentage of the basic salary is compulsorily deducted from the employee's salary. This deduction is the contribution towards the fund.
- An interest is worked on the contribution. A record of the contributed money and the interest earned on it is maintained by the employer. A copy of the same is also given to the employee.
- The money deposited and the interest on it are both exempt from income-tax.
- You can take a loan against the money deposited.

There are two types of Provident Fund Schemes:

- General Provident Fund (G.P.F.) - This is suitable for all salaried people. If desired, the employee can increase the contribution towards the fund. At the time of retirement, the employee gets both, the contribution and the interest, in a lumpsum.

If the employee needs money before retirement, say, for the marriage of children or for the construction of a house, a loan can be taken from the Provident Fund. The money withdrawn can be returned to the fund in easy instalments every month.

- Public Provident Fund (P.P.F.) - Any self employed person can open this account with the State Bank of India or the post office. The money may be deposited either regularly in instalments or in lumpsum. After five years, the investor can take back certain percentage of this money. The investor also enjoys income-tax relief. Loan can be taken against the money invested in the fund.

iv) Insurance Policy

Insurance is a means of providing security against loss caused by natural or man-made factors. When one takes an insurance policy, one has to enter into a contract with the insurance company. Under the contract, the insured has to pay a



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sum of money known as the premium periodically to the insurance company. In return, the insurance company makes good the loss suffered by the insured person or agrees to make a compensation for the loss incurred.

Insurance is of two types:

- **General Insurance**-This covers risks such as theft, fire, flood, drought or any other contingency. The contract is generally made for a year. The insured has to pay the premiums periodically. The amount of the premiums to be paid will depend on the amount for which the contract is drawn up. In case of a loss suffered by the injured, he or she can recover from the insurance company the actual amount of the loss or the amount of policy, whichever is less. The advantages of this policy are:
 - it is an easy and forced form of savings and
 - it provides security against loss or risk.
- **Life Insurance** - It is a contract under which the insured pays premium periodically. How much the premium will be, will depend upon the total amount of the policy and the number of years for which the policy is drawn up. At the end of the period, the money along with the interest, is returned to the insured. In case the insured dies, the full amount for which the policy is taken, is payable to the person whose name has been nominated by the insured. This person is called the beneficiary. The advantages are:
 - it is a safe investment
 - it provides financial protection to the dependents in the event of death or disability
 - it is an easy and forced form of saving
 - it provides income-tax relief on the paid-up premiums, and
 - loans can be taken against money deposited for the policy.



Activity 13.5: Find out the names of some policies offered by the Life Insurance Corporation of India and explain how they can help you.

v) Unit Trust of India

You can buy units in your name or in joint names from the Unit Trust of India (UTI). Each unit has a face value of Rs. 10. A minimum of 100 units has to be bought. Every year in June, the Unit Trust of India declares dividends out of its projects. The advantages of investing in units are:



- you get regular interest
- you get income-tax relief on the amount invested
- the dividend you get is completely exempt from income-tax
- whenever you are in need of money, you can encash the units by selling them back to the UTI at the repurchase price fixed by it from time to time.
- you can transfer the units to another person, and
- it is a safe investment.

Note : The income tax benefits may vary from time to time according to Government policies.

vi) Shares

When private companies want to develop, they float shares to the public. When you buy a share, you become a part owner of the company. You will now share both the profit and loss of the company. When buying shares, you must buy from companies which you expect will do well, so that you enjoy profit and not suffer from losses as in the cases of less reputed companies.

The main advantage of this type of investment is that it may quickly give you a very high profit. But this is not always so. Do you watch the news on TV? The news will tell you that the Sensex has either risen or fallen. When the Sensex remains at a low level, you may lose money on your shares.

vii) Debentures

Debentures are also known as bonds. When you purchase a debenture from a company, it means that you have loaned the money to the company. In return, the company promises to pay back the investor not only the amount invested but also a fixed rate of interest on it at regular intervals.

When compared to investing in shares, this is a safer method of investment. You get your interest irrespective of the company's profit or loss.

viii) Property or jewellery

If you have a large saving you can buy any one of these and keep it with you. You can sell it at a later date when its price goes up.

The disadvantage here is that when you wish to sell off your property, it may take long time to get a suitable buyer. When you sell off your jewellery, a certain amount of loss may be faced in the weight of the jewellery. You can pledge gold or property for obtaining loans in cases of emergencies.

Depending upon various characteristics like safety, liquidity, return on-money invested, exemption from tax and availability of loan facility, most of the investment schemes can be plotted in a simple chart.



Table 13.2 Characteristics of Selected Investment Schemes

Institution	Safety	Liquidity	Return	Tax exemption	Loan facility
Saving Bank Account	√	√	√	—	only against Fixed Deposits
Post-Office Savings Account	√	√	√	√	—
National Saving Certificate (NSC)	√	—	√	√	—
General Provident Fund (GPF)	√	—	√	√	√
Public Provident Fund (PPF)	√	—	√	√	√
General Insurance	√	—	√	—	—
Life Insurance	√	—	√	√	√
Units	√	√	√	√	—
Shares	—	—	√	—	—
Debentures	√	—	√	—	—
Gold/Property	—	√	√	—	—



Activity 13.6 : Find out the above mentioned characteristics of some other investment schemes in your area and add them to the chart given here.

13.7.2 FACTORS INFLUENCING SELECTION OF AN INVESTMENT SCHEME

Banks and saving institutions offer various investment schemes, suitable to various categories of people. Before you invest your money in any scheme, you must study the following points carefully.

- **Your capacity to save:** If you are a small saver, invest in a scheme which does not require a large amount as the minimum specification to invest.
- **Safety of the investment:** To save, you have to often sacrifice some present requirement. You would therefore, definitely want your saving to be safe. Your investment documents should be kept very safely. Moreover, there



are certain schemes which are not likely to pay you a good return owing to the fluctuating market prices. You must try to avoid such schemes.

- **Higher rate of interest:** The longer you keep your money in an institution, the higher is the rate of interest it offers you. Also different institutions offer different rates of interest for the same period. Institutions which require your money urgently, may offer you a very high rate of interest. You have to be cautious to see that the institution is a reliable one.
- **Easy liquidity:** There may be times when you suddenly need your money. Easy liquidity enables you to get back your invested saving. There are some schemes where you cannot withdraw your money before a stated period. Investing all your saving in such schemes will make it difficult for you to get your money when you need it.
- **Other benefits:** Besides a high rate of interest, there are some other benefits like dividends and income-tax relief which are offered by a few schemes.
- **The purchasing power:** At the end of the investment period, the increased value of the saving should be equal to or more than the inflation during that period.
- **Convenient place of investment:** Most investments require paperwork. If the institution in which you invest is at a convenient place, visits can be made easily.

13.7.3 OTHER FACILITIES OFFERED BY FINANCIAL INSTITUTIONS

Besides savings, various financial institutions offer the following facilities to us.

- i) Credit Card
- ii) Debit Card
- iii) ATM Card
- iv) Loan
- v) e-banking

Let us learn more about these.

i) Credit Cards

Most banks provide credit card facility to their customers. This card can be used for purchase of goods and services from selected outlets authorised by the bank. Since this card is made of plastic, it is also known as plastic money. The amount of credit a customer can avail of is limited as agreed upon at the time of issue of the credit card. You can also withdraw money using a credit card through an automated teller machine (ATM). At the



Fig. 13.8 Credit/ Debit card

amount of credit a customer can avail of is limited as agreed upon at the time of issue of the credit card. You can also withdraw money using a credit card through an automated teller machine (ATM). At the



end of every month you receive a statement of the total credit availed by you. You have to repay the whole amount or part of it as mentioned in the statement.

A high rate of interest is charged on the outstanding balance, therefore, you should be careful in using a credit card.

ii) Debit Card

This card is similar to a credit card except in the following terms:

- This card is issued against your savings bank account.
- As you make a payment using this card, the money is automatically debited from your account.
- In this manner you use your money instead of taking credit from the bank.

iii) ATM Card

Using a credit or a debit card, you can withdraw money from an ATM at any time of the day or at night (24 Hours services). These are located in various places like a bank building, shopping complex, a residential area or railway/bus terminals etc. Thus cash is available even beyond the bank hours. Using a credit card at an ATM attracts a high interest rate. In the case of a debit card, you withdraw your own money for which no interest is charged.

iv) Loans

Today financial institutions provide loans for many purposes like personal use, education, purchase of a house, vehicle, household durables, maintenance and repairs of household purchase; setting up your own business, etc. The interest charged by these institutions varies according to the purpose, amount, repayment period and type of institution (government or private). These loans can be returned easily in monthly installments. To avail of these loans you need to provide either a guarantee and/or a bond and/or a security in the form of a fixed deposit, NSCs, property or jewellery etc.

v) e-banking

These days the internet provides you the following services at the press of a button:

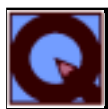
- to know your bank balance, amount of credit available, apply for a chequebook or draft, credit card payments, etc.
- to utilise tele marketing facility to purchase goods or to avail services.
- to purchase railway and air tickets, and
- pay your telephone, water and electricity bills.

This saves you time while making trips to the banks and other places.

Notes



Notes



INTEXT QUESTIONS 13.6

Fill in the cross word puzzle using the hints given below. The number of letters in brackets indicate the number of letters in the word.

Fig. 13.9

Hints

ACROSS:

- 2 Facility offered by financial institutions (4)
- 5 A form of plastic money (10)
- 10 Another word for buying (8)
- 11 24 hr facility to withdraw money (3)

DOWN

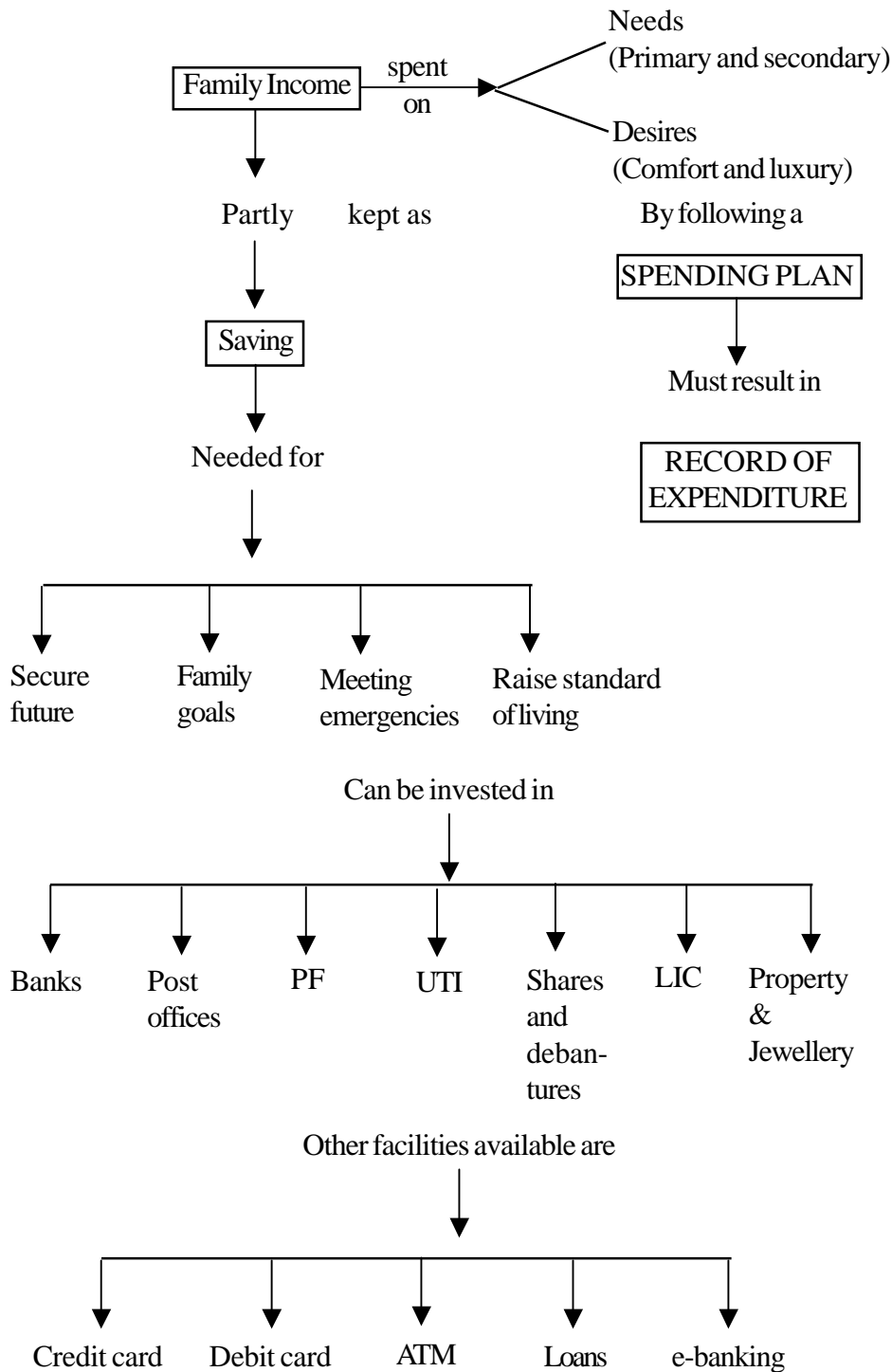
- 1 Worldwide network of computers (8)
- 3 Charged when credit card bill is partly paid (8)
- 4 Use of internet for financial services (9)
- 6 Money deducted from bank account when used (9)
- 7 Bought on loan from a bank (5)
- 8 Can use credit card to buy this for travelling (6)
- 9 Safe place to keep your money (4)



WHAT YOU HAVE LEARNT



Notes





Notes



TERMINAL EXERCISE

1. Re-arrange the letters to denote the correct term for the following:

(a) Maintaining day to day accounts	DOERRC
(b) You wish to fulfil these after your needs are met	REDSSIE
(c) Money spent on acquiring goods and services	TEENTPREXIU
(d) Money available to fulfil the family needs and desires	EIOMNC
(e) Money kept aside for future use	GNVSAIS
(f) Growth of savings by keeping in special schemes	MIVNETTEN
(g) Easily accessible institution for saving	TOPS EFIFCO
(h) Security against death or accident	ECASUINRN
(i) Saving in NSCs gives you this advantage.	XTA NTOMIEEXP
(j) Monthly deduction from the salary as compulsory saving	NETIROVPD DUFN
(k) A fixed form of saving	YERROTPP
2. What is investment?
3. What are the ways in which a small saver can invest?
4. What are the factors you would consider before selecting a scheme of investment?
5. If you are the only earning member at home, which scheme would you invest in? Give reasons.



ANSWERS TO INTEXT QUESTIONS

- 13.1 1. (a) RI (b) NI (c) MI (d) RI
 (e) MI (f) RI (g) MI (h) RI
 (i) RI
2. (a) Mr. Anand.
 (b) House rent expenses are more than the expenses for lunch and petrol charges. Thus Mr. Anand is saving on rent and on transport expenses, which is more than Mr. Lal's savings.

**Notes**

- 13.2 1. (a) buying a refrigerator
(b) buying nutritious food
(c) buying a mixer grinder
(d) buying warm clothes
(e) buying their own house
- 13.3 1. (a) F- all kinds of income must be managed to get maximum benefit.
(b) F- A smaller income also needs management for greater satisfaction.
(c) F- to fulfill all the needs, better management of income is required.
(d) T- A clear statement of your income helps you to manage it better.
(e) F- Complete control over both income and expenditure is called managing income.
2. Rupees 2687 is the balance on the 10th day.
- 13.4 a) No - storing dangerous items can cause fire/health hazards. It may not be allowed legally.
b) No - you will have to pay salary to servant. You will compromise on the safety of your house.
c) No - full time job is not always available. You may not be qualified to hold a full time job.
d) No - expenditure on entertainment can be curtailed. You can do some work yourself.



- 13.5 (a) daughters' education and marriage and medical expenses, fulfilling post-retirement needs (any two)
(b) education, buying a house and household durables (any two)
(c) buying a house and post-retirement needs.

ANSWERS TO TERMINAL EXERCISE

- (a) Records (b) Desires (c) Expenditure, (d) Income
(e) Savings (f) Investment (g) Post Office (h) Insurance
(i) Tax Exemption (j) Provident Fund (k) Property.

2.5 Refer Text.

AUDIO - Instructions on how to fill a money order form.

VIDEO - Banking Dak Ghar Bhachat Yojna

*For more information log on to
[www.personalbudget planning saving-money.com](http://www.personalbudgetplanning.com)*