



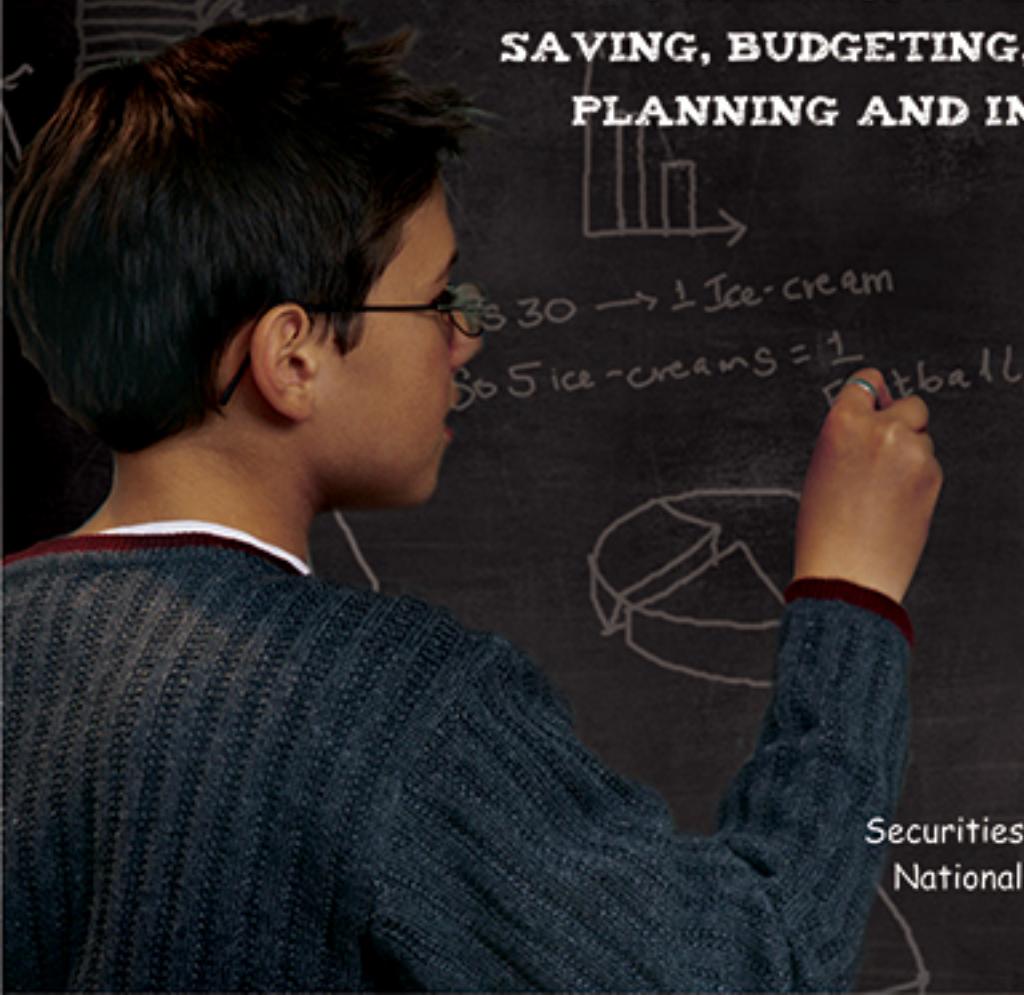
NISM

POCKET MONEY

Financial Lessons for Life

THE STUDENT'S GUIDE TO MONEY

IMPORTANT LIFE SKILLS TAUGHT
USING 8 INTERACTIVE MODULES ON
SAVING, BUDGETING, FINANCIAL
PLANNING AND INVESTING



A financial literacy initiative by the
Securities and Exchange Board of India (SEBI) and
National Institute of Securities Markets (NISM)

Disclaimer

The contents of this publication do not necessarily constitute or imply its endorsement, recommendation, or favoring by the National Institute of Securities Markets (NISM) or the Securities and Exchange Board of India (SEBI). This publication is meant for general reading and educational purpose only. It is not meant to serve as guide for investment. The views and opinions and statements of authors or publishers expressed herein do not constitute a personal recommendation or suggestion for any specific need of an individual. It shall not be used for advertising or product endorsement purposes.

The statements/explanations/concepts are of general in nature and may not have taken into account the particular objective/move/aim/need/circumstances of individual user/reader/organization/institute. Thus NISM and SEBI do not assume any responsibility for any wrong move or action taken based on the information available in this publication.

Therefore before acting on or following the steps suggested on any theme or before following any recommendation given in this publication user/reader should consider/seek professional advice.

The publication contains information, statements, opinions, statistics and materials that have been obtained from sources believed to be reliable and the publishers of this title have made best efforts to avoid any errors. However, publishers of this material offer no guarantees and warranties of any kind to the readers/users of the information contained in this publication.

Since the work and research is still going on in all these knowledge streams, NISM and SEBI do not warrant the totality and absolute accuracy, adequacy or completeness of this information and material and expressly disclaim any liability for errors or omissions in this information and material herein. NISM and SEBI do not accept any legal liability what so ever based on any information contained herein.

Reproduction of this publication in any form without prior permission of the publishers is strictly prohibited.

ISBN: 987-81-909089-1-7

Table of Contents

About the Pocket Money Program.....	i
About SEBI.....	ii
About NISM.....	iii
STUDENTS' ACTIVITY SESSIONS.....	1
1. Money Matters : Smart Goals And Financial Analysis.....	3
2. Budgeting : Balancing The Means And The Ends.....	11
3. Investment : Nurturing The Money Plant.....	19
4. Basics Of Banking.....	31
5. Stalking The Stocks.....	49
6. Investments : The Wider Spectrum.....	65
7. Beyond Savings : Borrowing.....	81
8. The Final Countdown.....	91
FAMILY ACTIVITY SESSIONS.....	103
1. Money Matters : Smart Goals And Financial Analysis.....	105
2. Budgeting : Balancing The Means And The Ends.....	109
3. Investment : Nurturing The Money Plant.....	113
4. Basics Of Banking.....	117
5. Stalking The Stocks.....	121
6. Investments : The Wider Spectrum.....	125
7. Beyond Savings : Borrowing.....	129
8. The Final Countdown.....	137
MONEY MAXIMS.....	145



About the Pocket Money Program

Pocket Money is SEBI and NISM's flagship program aimed at increasing financial literacy among school students. The objective is to help school students understand the value of money and the importance of saving, investing and financial planning. We train the teachers and provide course material to help schools deliver the benefits of this program to their students.

We believe that imparting real life financial skills to school students is critical because it prepares them to handle money effectively in real life. Whether it is the ability to operate a bank account early or understanding the importance of budgeting and investing for future goals, this program is critical to their overall development. This program is a first step in the direction to build a nation which not only understands the value of money but also has the right knowledge and skills required for taking responsible financial decisions.

The two key objectives of the program are:

- Lay a strong foundation with basic financial knowledge and practical skills
- Prepare students to confidently manage their personal finances as they grow

At the end of the program, an evaluation is conducted by NISM in co-ordination with the participating school. Every student who completes the Pocket Money program successfully is given a certificate and all teachers are honored for helping raise financial literacy in the country.

To participate in this program, you can write to pocketmoney@nism.ac.in

About SEBI

Securities and Exchange Board of India (SEBI) is a body set up by the Parliament in 1992 to protect investors, and to regulate and develop the capital market. It started operations in 1988 through an order of Government of India. It is head quartered in Mumbai with regional offices in Delhi, Kolkata, Chennai and Ahmedabad.

Companies who want to raise capital (money) from public have to disclose their full details as per rules made by SEBI. Subsequently, these companies are required to publish information periodically for the benefit of the investors. In case of take-over of a company, the rules made by SEBI have to be followed so that the interest of shareholders of the company is protected. The function of the securities market is to allow companies to raise capital from public by issuing of shares (primary market) and to enable trading in the shares of public companies (secondary market).

Buying and selling of shares takes place in the stock exchanges through stock brokers. These entities can function only if they have SEBI license. They are also required to follow rules laid down by SEBI, to protect the investors. Similarly SEBI also regulates other participants in the capital markets like, sub brokers, depositories, depository participants, portfolio managers, merchant bankers, share transfer agents etc.

Mutual funds collect money from public under various schemes and invest in the market on behalf of investors and are also governed by rules formulated by SEBI. Mutual Funds have to disclose details of the scheme, where they will invest money, the fees charged from the investor etc. They also have to make periodic disclosures for the benefit of investors as mandated by SEBI

SEBI also educates investors, facilitates redressal of their grievances and protects them by introducing investor-friendly disclosure norms from time to time.

For more information please visit www.sebi.gov.in

About NISM

In pursuance of the announcement made by the Finance Minister in his Budget Speech in February 2005, Securities and Exchange Board of India (SEBI) has established the National Institute of Securities Markets (NISM) in Mumbai.

SEBI, by establishing NISM, has envisioned a large and far reaching vision to articulate the desire expressed by the Indian government to promote securities market education and research.

Towards accomplishing the desire of Government of India and vision of SEBI, NISM has launched an effort to deliver financial and securities education at various levels and across various segments in India and abroad. To implement its objectives, NISM has established six distinct schools to cater to the educational needs of various constituencies, such as investors, issuers, intermediaries, regulatory staff, policy makers, academia and future professionals of securities markets.

NISM brings out various publications on securities markets with a view to enhance knowledge levels of participants in the securities industry.

Acknowledgement

The content for this program has been developed by IMS Learning Resources Pvt. Ltd. NISM is grateful to them for their contribution.





STUDENTS' ACTIVITY SESSIONS

- | | | |
|----|--|----|
| 1. | Money Matters: Smart Goals And Financial Analysis..... | 3 |
| 2. | Budgeting: Balancing The Means And The Ends..... | 11 |
| 3. | Investment : Nurturing The Money Plant..... | 19 |
| 4. | Basics Of Banking..... | 31 |
| 5. | Stalking The Stocks..... | 49 |
| 6. | Investments : The Wider Spectrum..... | 65 |
| 7. | Beyond Savings : Borrowing..... | 81 |
| 8. | The Final Countdown..... | 91 |



SESSION I

MONEY MATTERS: SMART GOALS AND FINANCIAL ANALYSIS



I always wanted
to be somebody,
but I should have
been more
specific.
— Jane Wagner



MONEY AND YOU

List 5 things you would like to buy right away, if you had the money.

1. _____
2. _____
3. _____
4. _____
5. _____

List 5 things that you would never be able to buy, even if you had all the money that you wanted.

1. _____
2. _____
3. _____
4. _____
5. _____



FINANCIAL INFORMATION QUOTIENT

Read the following statements and mark whether they are true or false:

1. One who can spend a lot of money is a wealthy man.

2. People who regularly spend less than what they earn are more likely to become wealthy than those who regularly spend more than what they earn. _____
3. Young people do not have to worry about money.

4. You cannot spend money when your bank account is empty.

5. One must be 18 years old in order to open a bank account.

6. It is possible for us to have a share in the profits of many big companies in India. _____
7. One cannot open a bank account if one does not have a ration card. _____
8. One can keep his savings in a post office. _____
9. A person below 18 years of age can apply for a loan from a bank. _____
10. When you save money, it grows. _____

No. of rights

$$\text{My FIQ} = \frac{\text{No. of rights}}{10} = \text{----}$$

QRIOSITY



WORTH-WHILE

With the help of your partner, identify the assets and the liabilities of Mr. Bakshi and calculate his net-worth.

Theory-Wise

Asset: Items owned by a person.

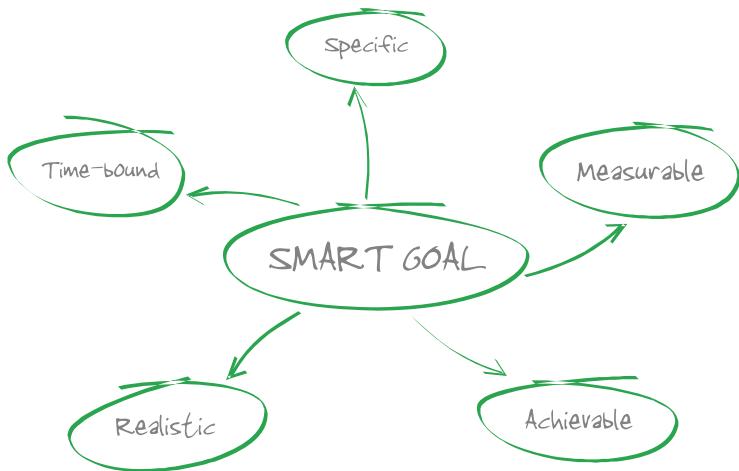
Liability: Money owed by a person.

Net-Worth = Assets – Liabilities

Item	Amount (Rs)	Asset	Liability
Bank account balance	36,678		
Car loan	1,35,000		
Washing machine	3000		
Gold Jewelry	58,000		
Shares worth	40,000		
Life Insurance	78,000		
Furniture	10,000		
Television	21,000		
House rent not paid	7000		
Phone bill not paid	1500		
Fixed deposits	10,000		
Gymnasium fees not paid	800		
Car	2,95,000		
Money owed to a friend	1,00,000		
Total Assets:			
Total Liabilities:			
Net-worth:			

One magical word that would be the solution to Mr. Bakshi's problem: _____

GET ... SET ... GOAL!!



What's SMART and what's not?

	NOT SMART	SMART
Specific	I want to go somewhere with my friends during the summer vacation.	I want to go to Simla with my friends during the summer vacation.
Measurable	I need to save some money for the trip to Simla.	I need to save Rs. 1000 for my trip to Simla.
Achievable	I will arrange all the money myself.	I will request my parents to give me Rs.500 and I will save up rest of it.
Realistic	I will save Rs. 100 and buy lottery tickets.	I will save Rs. 100 per month for the next five months.
Time-bound	I want to save the money sometime soon.	I want to save the money by first week of March.

Mr. Bakshi's dream: He wants to buy a DVD player.

Mr. Bakshi's SMART goal:

Along with your partner, read the profiles of the following students and set each of them a SMART goal.

- 1) Name: Ritwik Pathak

Age: 14

School: Delhi Public School

Passion: loves to play with words

Dream: Wants to buy the latest version of Scrabble (a board game)

SMART goal:

Fincyclopedia

In life, as in football,
you won't go far
unless you know
where the
goalposts are.

—Arnold H.
Glasgow

- 2) Name: Saloni Mehta

Age: 15

School: St. Xaviers

Passion: Making friends and learning a lot of new things

Dream: To attend the summer camp in Manali and save up at least a part of the fees.

SMART goal:

- 3) Name: Rohan Sasidharan

Age: 14

School: Kendriya Vidyalaya

Passion: Guitar prodigy.....known as the Little Maestro

Dream: To buy his own guitar before he enters college.

SMART goal:

FOR THE LOVE OF MOM

Sachin Trivedi is a 14 year old boy who lives in Jaipur with his parents. Sachin wants to work and earn some money of his own but his school and his karate classes keep him so busy that he just does not find the time or the energy to work.

Sachin's parents give him a monthly allowance of Rs.1400. From this allowance, he has to pay Rs. 600 as school bus fees. He gets Rs. 300 as canteen expenses since he has to spend a lot of time at school. His father gives him Rs.200 to buy pre-paid vouchers for his cell phone. His father gives him Rs.50 per month if he needs some stationery material. He does not always need stationery so he treats half with an ice-cream candy sometimes. Now Sachin is a movie buff and likes to watch at least 2 movies in a month with his friends. Since he does not earn any money of his own, he has to ask his parents if he needs something extra.

Like all children, Sachin loves his mother a lot. Her birthday is after three months and Sachin wants to give her a surprise birthday gift. In fact he has already chosen the best present for her. His mother is fond of sketching and Sachin has found a great sketching set for her. But the set costs Rs.540 and Sachin does not know what to do. His parents have always forbidden him from borrowing money from anyone. So he can't borrow the money from his friends. Moreover, how would he repay them? He cannot earn. He does not want his father to know his plans either. Now, how can he buy his mother the sketching set for her birthday?

Sachin's SMART goal:

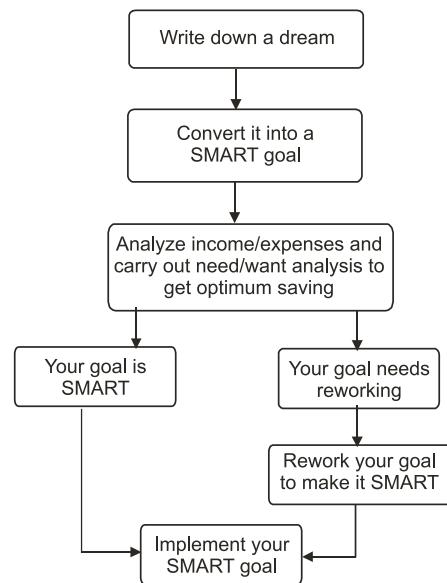
Need/Want analysis of Sachin's expenditure

DESCRIPTION	AMOUNT	NEED	WANT

Reworking required in Sachin's budget: _____

THE SMART GOAL FLOW CHART:

Theory-Wise
Income: It is the money gained
Expenditure: It is the money that you spend on your needs and wants.
Cash-Flow statement: It is a record of your income and expenditure.

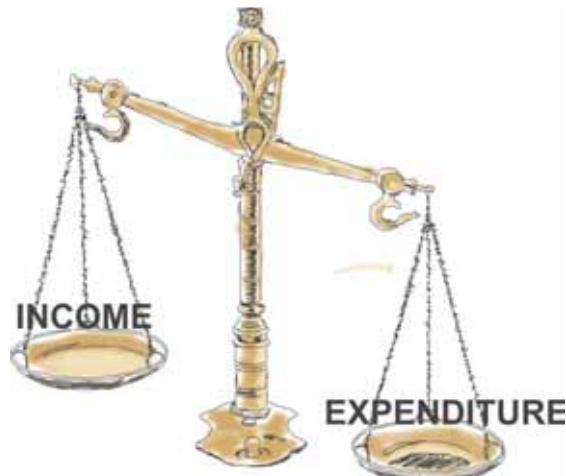


SMART PREVIEW:

- Identification of sources of income
- Surplus and deficit
- Building a cash-flow statement and personnel budget
- Calculating the savings that can be invested
- Benefits of investment

SESSION 2

BUDGETING: BALANCING THE MEANS AND THE ENDS



MY LAST DEPOSIT:

- Net worth is the real indicator of a person's wealth, not his spending.
- Dreams should be translated into SMART goals if they are to be realised. SMART goal is Specific, Measurable, Achievable, Realistic and Time-bound
- Needs refer to those things that are necessary for survival
- Wants refer to those things that make our lives comfortable
- You can make changes in your expenditure pattern in order to save money so that you can achieve certain financial goals.



QRIOUSITY

Theory-Wise

Deficit: Deficit is a lack OR an excess of expenditure over earning

Theory-Wise

Surplus: Surplus is the amount that remains when use or need is satisfied.

Areas Of Expenditure	Amount (Rs.)	Scope For Curbing?	Proposed Expenses
Mr. Munshi's total expenditure			

CASE 1:

Mr. Munshi's disposable income: _____

Mr. Munshi's household expenditure: _____

Income – Expenditure = _____

Deficit:

CASE 2:

Mr. Munshi's disposable income: _____

Mr. Munshi's revised household expenditure: _____

Income – Expenditure = _____

Surplus:

GO GOA!!!

Rahul Verma is a very smart boy, all of fourteen, and lives in Delhi with his parents and younger sister Rimi, who is twelve. Rahul's father is a professor in a college and mother is a home maker. It is the month of June, school will start in a week's time. Rahul and Rimi have spent the entire vacation at their grandparents' place. When they come back from their grandparents' place, they demand for a vacation to some distant place in their winter break. Their mother agrees that she too could do with a change. They decide to tell the father about it when he returns from work.

Mr. Verma was also excited about going on a vacation but he told the family that he will not be able to take them to a far away place. But the hour long feature on Goa, which a T.V channel had recently covered, had done the job for the kids. They were already building sand castles in the air and taking the sea waves on their backs! So when their father offered to take them to a nearby place, they insisted that they be taken to Goa. Rimi said excitedly, "But daddy they told in that program that winter is the best time to visit Goa! The climate will be great and imagine what fun it would be to see the Christmas carnival there! Please daddy, let's go there"

Finally Mr. Verma put his foot down and said, "I see you kids have done your homework on this. I would love to take you to Goa children but I have a lot of things to take care of. Your school starts now. We need to buy you uniforms, schoolbags, books etc. I also have to save some money for your further education. I can spare Rs. 10,000 and it would be impossible for us to go to Goa in that budget."

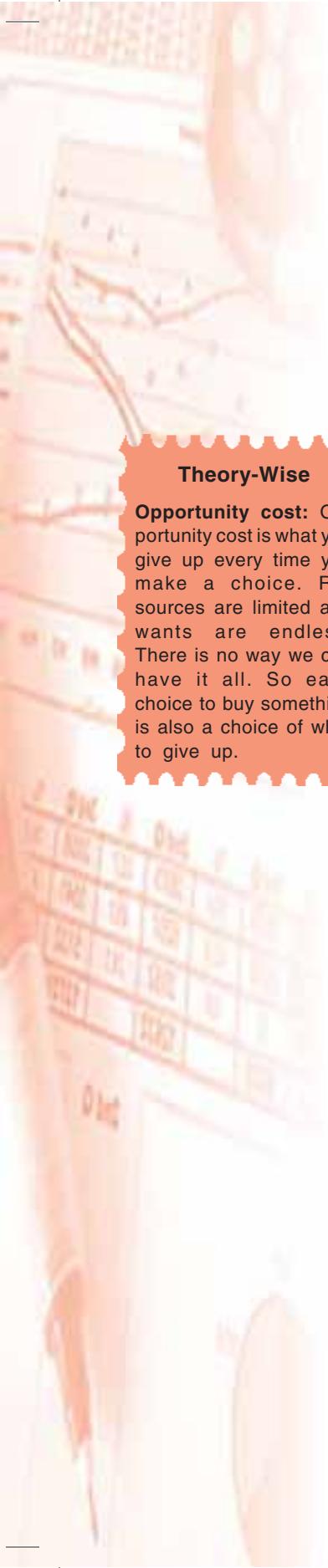
The children were disheartened. But then their mother said, "Why don't we see how much a 5-day vacation in Goa would cost us and then maybe we can try to do something..." The kids saw a ray of hope again and urged their father to find out the details. So the father went online, did some calculations and declared that it would cost them Rs.40,000!

Theory-Wise

Cash-flow statement:
A record of your income and expenses.

Theory-Wise

Budget: Budget is a plan for the coordination of resources and expenditures OR a projection of one's earning and expenditure.



Their mother told the kids, "Look children, we have 6 months to go and 30,000 to gather since dad is willing to spare 10000. May be if we all put our heads together, we might be able to save that money by curbing our daily expenses here and there. Rahul, why don't you take the initiative and do something about this?" Their father added, That is a fantastic idea. Your school is yet to begin and I am sure you will be able to give some time and draw a better budget for the family. You have my word that I will contribute my bit.

Theory-Wise

Opportunity cost: Opportunity cost is what you give up every time you make a choice. Resources are limited and wants are endless. There is no way we can have it all. So each choice to buy something is also a choice of what to give up.

Both the kids were excited with their new 'project'. Rahul kicked up his heels and decided to start this mission by finding out the exact expenditure of the family on various items.

Verma family's SMART goal:

Vital Stats of the Verma family:

- The family watch one movie on every Sunday - Rs.200/person
- They go on a long drive after that - Rs.250/Sunday
- They have dinner in a restaurant on their way home- Rs.500/Sunday
- Mr. Verma drives a car to his college- diesel cost- Rs.150/day

Rahul took the help of his parents to gather the other details about the spending habits of the Verma family. Complete the 'current expenditure' column on the basis of the information gathered by Rahul. (see the table on the adjoining page)

Area of expenditure	Current expenditure per month	Scope for curbing	Proposed saving	Savings in 6 months
Medical and emergency reserve	2000			
Electricity bill	2000			
Phone Bill	2000			
Movie & popcorn at multiplex				
Dinner at a restaurant				
Diesel expenses for long drive				
TOTAL				
Expected saving	30000			
STEP 2: 24600 down, 5400 to go!				
Grocery	5000			
Provisions	2500			
Cooking oil	425			
Milk	900			
Vegetables	1175			
Father's diesel expenses	3900			
Ironing clothes	700			
TOTAL				
Expected saving	30000			
Total Saving				

Theory-Wise

Delayed gratification: With long-term goals, you must be willing to give up something you want now to get something better/bigger in the future. This is called delayed gratification.

Theory-Wise

Instant gratification: When you satisfy a want immediately, it gives you instant gratification.



Space for working out the Verma family budget:

A SHOT OF FINANCIAL WISDOM:

We need to draw an effective budget in order to:

- ✓ Optimize savings.
- ✓ Ensure that we don't spend beyond our means.
- ✓ To save accurately for a particular short/long term goal.
- ✓ To effectively allot funds to various areas of expenditure in advance.

Fincyclopedia

Some families go over their budgets very carefully every month, others just go over them

-Sally Poplin

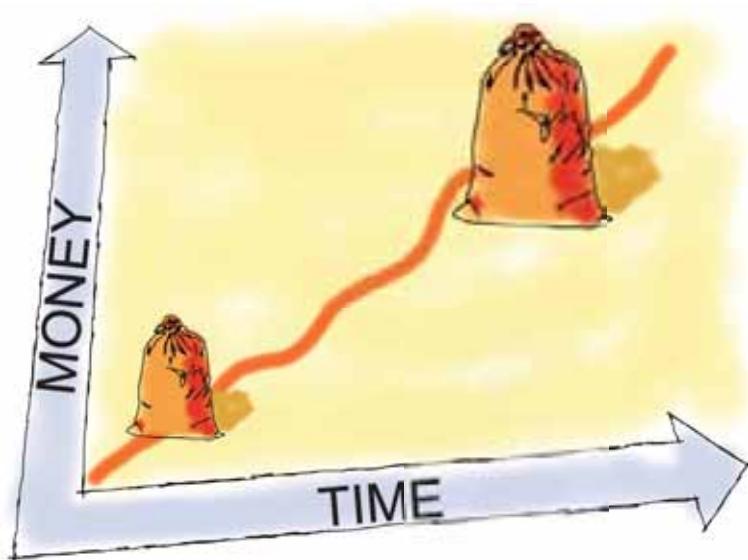
SMART PREVIEW:

- Need for investment
- Concept of interest
- Time value of money
- Need for a bank
- Importance of compounding
- 3 Major Concerns Related to Investment: Safety, Liquidity and Growth.



SESSION 3

INVESTMENT : NURTURING THE MONEY PLANT



MY LAST DEPOSIT

- The concepts of surplus, deficit, opportunity cost, delayed and instant gratification
- Cash flow statement is keeping a track of your income and expenditure.
- It is important to analyze the cash flow statement, do a need/want analysis, draw an optimum savings plan and then draw a judicious budget in order to achieve one's SMART goal.



QRIOUSITY

A Lemony surprise



Once upon a time in a school hostel:

Raj: Yash, I am thinking of setting up a lemonade stall in the school fete on Sunday. Since it is summer, I think, there will be quite a few takers for my lemonade.

Yash: That's a great idea Raj. Go ahead, then what's stopping you?

Raj: Well, I haven't got time to write to my parents and I need Rs.50 to buy the ingredients to make the lemonade. Ahem...I was wondering if you can lend me the money from your piggy bank...

Yash: Will he return my money? What should I do? There is about Rs.150 in my piggy bank but I dont know whether I should lend the money...

Raj: Yash, what if I borrow Rs. 50 but return Rs. 60? You only stand to gain in this situation...what say?

Yash: (question mark from is head) Why would Raj return Rs.60 if he is borrowing only Rs.50?

WHAT IS THIS extra Rs.10 that Raj is offering to Yash?

NEED FOR INVESTMENT

1. Good Old Days...



Boy: "Mom will you please give me Rs.150? My friends and I are planning to go to McDonalds to have burgers after school today."

Grandfather: (overhearing the conversation) Bittu, do you know once upon a time I used to run the entire household in that much money!

Boy: (looks all confused) Really? No grandfather, you are pulling my leg!

What is grandfather referring to?





2. Live it up!!!!



What do you think these pictures indicate?

3. Woes of the Sunset Years



Grandfather: What is the matter? You look disturbed. Is something bothering you?

Friend: Well! yes, actually. My wife is very ill and medical care is so expensive. My pension sometimes cannot make up for all the expenses I have to incur. I am not young now, you know. I don't earn a salary!

Grandfather: True my friend. One needs to make enough provisions for some regular income in ones old age.

Is it possible to make provisions for a regular income in one's old age?

4. Dreams Unlimited!



What do you think the picture depicts?

Why is investment necessary?

- ✓ It provides a cushion against inflation.
- ✓ It provides us a steady source of income in old age.
- ✓ It helps us achieve and maintain a certain standard of living.
- ✓ It is all the more necessary with increasing longevity
- ✓ It helps us achieve almost all short term and long term financial goals.

PLACE TO BANK ON!!!

Bunty has got his first pay today. He is thrilled and has already made plans to spend his hard earned income. But he is wondering where should he keep his money safely. On the other hand Bhavesh a friend of Bunty wants to start his own business for which he needs funds. He is wondering from whom can he borrow money.

What is that ONE place that both these people can find a solution to their problem?

Theory-Wise

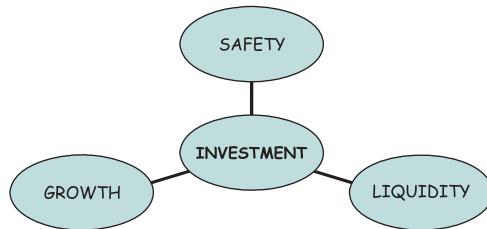
Bank is a financial institution whose primary activity is to act as a payment agent for customers and to lend and borrow.

Theory-Wise

The three main concerns related to investment are safety, liquidity and growth.

THE HOLY TRINITY OF INVESTMENT

There are three aspects to investment - Safety, Liquidity and Growth.



Real Bank Vs. Piggy Bank: Let's compare some crucial features:

	Piggy Bank	Real Bank
Safety		
Liquidity		
Growth		

Note: Liquidity refers to the immediate ready availability of money when a person wants to spend it.

Write down atleast three different avenues of investment you can think of:

INVESTMENT MANTRAS

1. Time value of money

Smita:

- Starts investing Rs. 750 /year from the age of 15
- At the age of 30, she stops investing
- She does NOT withdraw a single penny from this money

Jai:

- Starts investing Rs. 5000/year from the time he is 30 years old.
- He continues to invest the same amount till the age of 60.
- He does NOT withdraw a single penny from this money.

Given: Both earn 15% return on their investment.

Who do you think will have accumulated more wealth at the age of 60?

FINCYCLOPEDIA

Albert Einstein called 'compounding' the eighth wonder of the world!!!!

Investment Mantra 1:

2. Check - Mate!!!

Once upon a time there lived a wealthy king. He was revered for his intelligence and as a true patron of innovation. One day a man brought to him a new board game that the man had invented. He called the game 'chess'. The king played the game with the man and he was so impressed that he asked him to choose a reward for himself. The man asked for one *ashrafi* (gold coin) for the first square of the chess





board, 2 *ashrafis* for the second, 4 for the third, 8 for the fourth and so on for all the 64 squares on the chess board.

The king found it a very easy reward. But till the 64th square, the man had managed to gather 18,446,744,073,709,551,615 *ashrafis*!!!! The king had given the man his word so he had to stick to it. So even after having emptied his entire treasury, he could not pay the man's full reward.

The story underlines the concept of _____

Investment Mantra 2:

3. The Long Run Advantage

The table below shows you how a single investment of Rs.100 will grow at various rates of interest.

No. of years	5%	10%	15%	20%
1	105	110	115	120
5	128	161	201	249
10	163	259	405	619
15	208	418	814	1541
25	339	1083	3292	9540

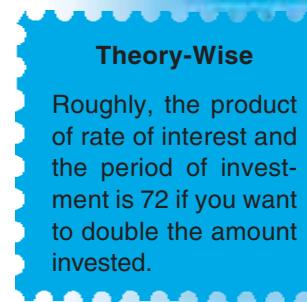
Investment Mantra 3:

4. The Tale of the Twins

Sunny and Bobby, twins, decide to invest Rs. 3000 every year when they are 25 years old. Bobby just gave up at the age of 30 whereas Sunny continued to invest regularly. A few years later, Bobby decided to make up for all those years so he invested a lump sum of Rs. 20,000 when he turned 35 and again invested Rs. 25,000 at the age of 42. Thus by the age of 45, both Sunny and Bobby had invested Rs. 63000 each. Assuming a growth rate of 15%, Sunny had Rs. 4 lakh whereas Bobby had Rs. 3.8 lakh.

Investment Mantra 4:

SALSA WITH 72



Rate of interest	Period of investment	Working space
10		
	5	
8		
	20	
12		
	11	

The Rule of 72:



THE GUITAR FEVER



Darius is 13 and has just passed his class VIII exam. He plays the guitar very well and dreams of becoming a guitar player of international repute and starting his own band some day. Recently Darius heard a British band live in Bangalore and since then he has been obsessed with the idea of becoming the proud owner of an electric guitar along with high quality sound output. Darius goes to the store selling the best musical instruments in the city and finds out that the equipment would cost him Rs. 1 lakh!

Heart-broken, he goes to his guitar teacher and tells him about the electric guitar episode. His guitar teacher is a young and talented artist. He listens carefully to Darius.

Teacher: "What is the trouble then?"

Darius: "Sir, are you making fun of me? How can I afford that fabulous guitar?"

Teacher: "Darius you play really well for your age but I suggest you continue playing the acoustic guitar for at least 7-8 more years. We can then consider an electric guitar".

Darius: "Sir I know I dont need it right now but I would like to have it at least by the time I graduate. But the price is so high; there is no way I will be able to afford the equipment even after 7-8 years. After all, I am going to be studying

all along. I wont be earning. Right now I save about 200 rupees per month but this paltry sum can never get me that guitar.” The teacher smiled with a glint in his eyes. He said, “Darius please dont think that I am making fun of your situation. Not at all. In fact you took me 10 years back in time when I made a similar decision to buy my own electric guitar when I was merely 14!”

Darius got a little excited. He said, “Really sir, did you succeed? You must have really pinched yourself to save so much money!”

Teacher: “You see that guitar on the mantel Darius, that’s the one that I bought when I was exactly 21!”

Darius: “How did you manage such an amazing feat?”

Teacher: “Just regular saving and investment. I did not had to sacrifice much either. I just saved and invested a small amount regularly and did not stop till I got what I wanted. I also started saving about 150 rupees every month for the last two years in high school and then saved more and more as I grew up and earned a little bit of money. Not much, say about 1500 per month!”

Darius: Do you think I will be able to buy the guitar too, on my own... that is... I don’t want to bother my dad.

Teacher: Of course you will be able to! Get a pen and paper and lets make you a plan!!

Amount per month	Period of investment	Principal amount	Possible rate of interest	Final amount
Rs. 200	8 years	19,200	10%	26,960
Rs. 300	6 years	21,600	9%	27,513
Rs. 1000	4 years	48,000	8%	55,840
TOTAL	8 years	88,800		1,10,313

Theory-Wise

Simple Interest
Formula:

$$I = \frac{P \times N \times R}{100}$$

I = Interest,
P= Principal, R = rate of interest, N = period

Theory-Wise

Compound Interest
Formula:
 $A = P \times (1+r)^n$
A = Amount,
P= Principal, R = rate of interest,
n = number of periods,
r = R/100



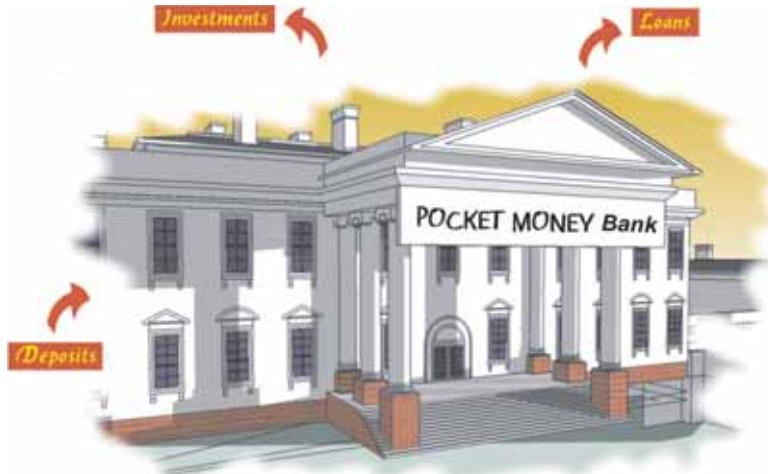
Notes:

SMART PREVIEW

- How to open a savings bank account?
- Other types of bank accounts
- Banking instruments required for operations - ATM, debit card, credit card, withdrawal/deposit slips, cheques, DDs etc.
- E-banking, tele-banking- safety concerns

SESSION 4

BASICS OF BANKING



MY LAST DEPOSIT

- Investing makes your savings grow
 - Invested money grows with time
 - Interest is the extra money you get when you invest your money for some time
 - When interest is compounded money grows faster

- When you invest money, you look for three essentials
 - Safety
 - Liquidity
 - Return

Q-RIOSITY



This is also a Bank, but can you open your account here?

CHETAN RECEIVES A CHEQUE



Chetan: Hi Mom! Grandpa has sent me a birthday card and along with it there's a cheque.

Mother: Send him a thank you note, dear. But, what do you want to do with the money?

Chetan: I will buy something that I **need**, just not what I **want!** You know, Mom, I am already halfway through my PocketMoney program!

Chetan: But, this is just a cheque how do I get the money?

How can Chetan get the money?

Chetan: Do you mean I have to go to Grandpa's place to get the money?

Mother: No my dear, you can go to the neighborhood bank where I have my account. You do not necessarily have to go to the Drawee Bank or Branch.

Chetan: Oh! That sounds all Greek to me! What is this Drawee thing you are talking about?

Mother: Show me the cheque and let me tell you about the different parts of a cheque.

Check the cheque



Drawer: _____

Theory-Wise
A cheque is an instrument in writing containing an unconditional order, signed by the maker, directing a specified banker to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.

– Negotiable Instrument Act

Payee: _____

Theory-Wise

Two parallel transverse lines across the face of a check is called a 'crossing'. And where a check is crossed, the banker on whom it is drawn shall not pay it otherwise than to a banker.

– Negotiable
Instrument Act

Drawee Bank and Branch: _____



Chetan: So, Mom, you mean I can go to the neighborhood bank and get cash from them?

Can Chetan get cash from the bank in exchange of this cheque?

Chetan: What are those two parallel lines doing there?

Mother: That's called _____; it means that _____

Mother: The words _____ written within the parallel lines mean that _____ and the bank will not _____ against the cheque.

So, what does Chetan do now?



Chetan: Why did Grandpa send me an account payee cheque in the first place? It is such a big problem for me now.

What could be the reasons for Chetan's grandpa sending a cheque?



Chetan: But why did he do the 'crossing' thing?

_____ a cheque and marking it _____ ensures that only the _____ of the cheque and nobody else gets the money.

Chetan: But I am not yet 18 years old, that's why you are not allowing me to drive the car or get a driving license.

How can I open a bank account?



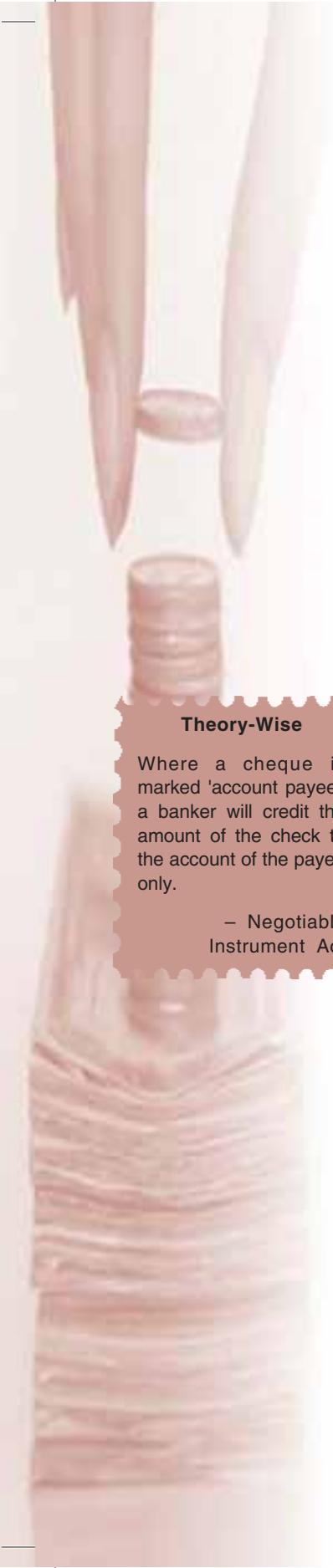
Can Chetan open a bank account?

Most of the banks allow/do not allow minors above ten/twelve/eighteen years age to open and operate savings bank account jointly with parents/independently. Therefore Chetan can/cannot open a bank account.

CHETAN GOES TO THE BANK



Mother: Good morning Miss Varuna, meet my son Chetan. He wants to open an account.



Manager: Good morning. What kind of account do you want to open Chetan?

Chetan: Are there different types of accounts that I can open?

DIFFERENT TYPES OF DEPOSIT ACCOUNTS:

Savings Account: As the name suggests, it is meant for depositing your money and withdrawing money for your expenses, leaving the balance for savings. There is usually a restriction on the number of withdrawals. Bank pays some interest on the balance in the account.

Current Account: This is an account meant for business transactions. Banks normally do not pay any interest on the balance in the account.

Theory-Wise

Where a cheque is marked 'account payee', a banker will credit the amount of the check to the account of the payee only.

– Negotiable Instrument Act

Term deposit Accounts also called **Time/Fixed Deposit Accounts:**

These are the accounts where one usually puts the money that one does not need immediately. A bank usually pays interest on the amount kept in term deposits at a rate higher than the rate of interest for savings accounts. It is called a Term Deposit Account as the deposit remains with the bank for a fixed predetermined term. Completion of that term is called **maturity**. A bank may levy some penalty if the depositor wants the money back before maturity.

Broadly there are three types of term deposit accounts.

Different types of Term Deposit Accounts:

- (1) Where no interest is paid during the tenure of the deposit and so the interest gets compounded and on maturity the amount deposited, called *the principal*, is repaid with accumulated interest.
- (2) Where interest is paid periodically at monthly/quarterly/half-yearly/yearly intervals. And the principal is paid on maturity.

- 
- (3) Where the account holder, the depositor, deposits a fixed amount periodically, usually every month and the accumulated amount is repaid with interest on maturity. This is usually called a **Recurring Deposit Account**.

What kind of account should Chetan open?

You can deposit cheques in and withdraw cash from a Term Deposit Account.

Theory-Wise
Recurring Deposit allows you to deposit a small amount every month and earn interest at rates applicable to Term Deposits.

For day to day transactions you need a Savings Bank/Term Deposit Account.

OPENING A SAVINGS BANK ACCOUNT

Manager: Let me tell you what all you need to open a savings bank account.

What are the requirements for opening a savings bank account?

(1) _____

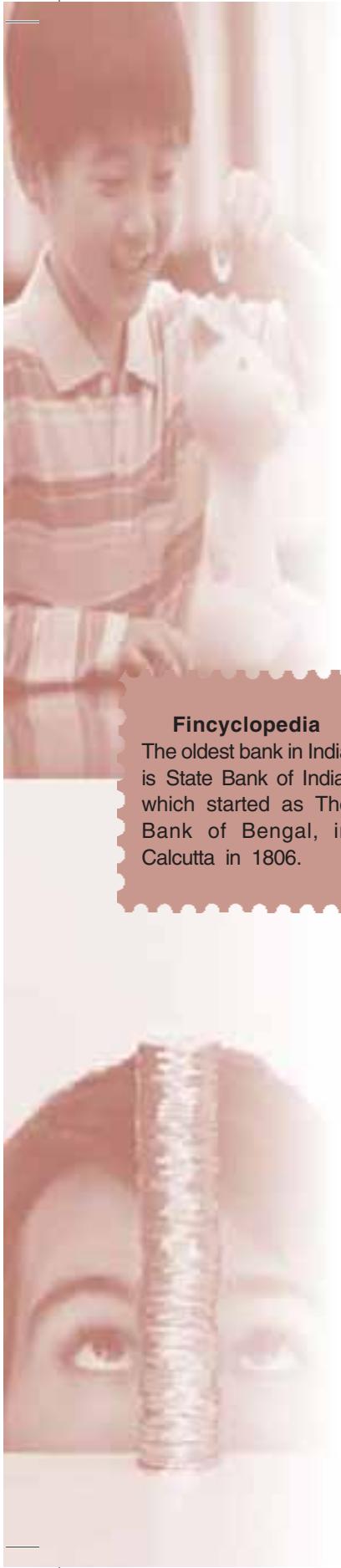
(2) _____

(3) _____

(4) _____

(5) _____

Permanent Account Number (PAN): _____



How to open a Savings Bank Account (Sample Form)

NP 154 sent on _____	SAVINGS BANK/CURRENT ACCOUNT OPENING FORM (FOR INDIVIDUALS AND JOINT ACCOUNTS)		
To : PocketMoney Bank			
Branch			
Dear Sirs,	Date: _____		
I/We request you to open a Savings Bank/Current Account in my/our name/s in the books of the Bank.			
Name in full (in capitals)	Date of Birth	Occupation	Father's/Husband's Name
1.			
2.			
3.			
4.			
Address of the 1st Depositor	Address of other Depositors		
_____	2.	_____	_____
_____	3.	_____	_____
_____	4.	_____	_____
PIN	PIN		
_____	3.	_____	_____
_____	4.	_____	_____
E-mail ID:	PIN		
PAN/GIR NUMBER:	PIN		
On attach Form No. 60/61 as per IT rules			
Staff No. _____	PIN		
(if employee of the Bank)			
In case of Minor:	Name of the Guardian:		
Name: _____	Name of the Guardian: _____		
Date of birth: _____	Relationship: _____		
In case of Joint Account:			
Account to be operated by _____ only			
Severally Jointly (please tick appropriate box)			
a) I/We enclose copy of the following as proof of address:			

Operating Instructions:

Either or Survivor operation: _____

Joint operation: _____

Nomination Facility: _____

WELCOME TO POKET MONEY BANK		
Date: _____	Branch: _____	
FULL NAME		
Account Number		
Particulars	Rs.	Pes.
TOTAL		
AMOUNT RECEIVED FROM DEPOSITOR		
AD	0000000000000000	10/10/06

POCKET MONEY BANK			PAY-IN-SLIP		Date: _____	Branch: _____
			Please mention your Name & 12 digit Account No. without Bal.			
					FOR CREDIT OF	
					<input type="checkbox"/> SB	<input type="checkbox"/> OTHERS
FULL NAME						
Account Number			Branch Code	Acct Type	Account Number	
BANK			BRANCH	SCHEDULE	CASH DEPOSITS	PERIOD
					(LAKHS)	
					1000+	
					500+	
					100+	
					50+	
					10+	
					5+	
					0+	
ADDRESS (in words)					CASH DEPOSITS	
					TOTAL	
FOR OFFICE USE ONLY					SIGNATURE OF DEPOSITOR	
AD					0000000000000000 10/10/06	
NOTE: PLEASE USE SEPARATE SLIPS FOR LOCAL / OUTSTANDING CHEQUE AND CASH						

From where and how does the bank get the money?

Clearing system: The banks have a system of **clearing**. All the banks meet at one place and exchange the cheques received by them from their respective customers and settle the accounts among themselves. This is called the **clearing** system.

Fincyclopedia

Bank of St. George, Genoa, Italy established in 1406 is the first modern bank in the world.



A BIRD'S EYE VIEW OF A COMMERCIAL BANK



Manager: Now that you have become a customer of our bank, let me show you around the bank.



Can you identify this machine? What does it do?

Precautions necessary with regard to ATM cards

1) _____

2) _____

CREDIT CARD STATEMENT (Sample Copy)

POCKET MONEY Bank		PAYOUT DATE (MM YYYY)	BENEFITS BALANCE (MM YYYY)
 Your Name & Address Aditya Kulkarni E-204, Jai Mahar Apt., Neer Hanuman Temple, Bambai (E)		10 / 06 / 08	275.25
Bank Account 5000		Your Cheque / Draft payment should payable to: PocketMoney Card No 5546 3794 1453 3016 	
Telephone Number 9888 Mobile:		Bank and Branch  Amount Collected (Rs.) 	
<small>Please attach this coupon and send it with your payment to: PocketMoney (P) Ltd., at any of the addresses given on back. Please do not staple the coupon.</small>			
POCKET MONEY Bank			
User Name & Card Number Aditya Kulkarni 5546 3794 1453 3016		DISPAY CASH (MM YYYY) 42000.00	ADMISSED CASH (MM YYYY) 35695.25
Statement Period 29 / 06 / 08 to 29 / 07 / 08		Statement Date 30 / 07 / 08	Payment Due Date 15 / 08 / 08
Amount Collected (Rs.) 		Amount Collected (Rs.) 	
Date 30 / 06 05 / 07 07 / 07 13 / 07 14 / 07 14 / 07 21 / 07	Reference Number 8670 2530154669 5669 75502728196 1407164469 0249 201	Activity Since Last Statement THREE STAR FUEL STATION PARROT THREE STAR FUEL STATION RAINBOW RECEIVED - THANK YOU THREE STAR FUEL STATION NAVYET MOTORS LTD.	Amount (Rs.) 1000.00 1000.00 1000.00 1580.00 2000.00 CR 1000.00 700.00
Statement Summary 1999.00 6305.00 0.00 3000.00 6004.95			
Turbo Points → 355		Opening Balance 0.00 Closed Balance 315.25	
Turbo Rewards <small>"Not yet registered for a statement? Do so now and get 100 reward points FREE! Just log onto www.investorfirst.in now!"</small>			
<small>Pay your Pocket Money bank credit card bill online using other bank account. Your payment will be credited the next working day into your Pocket Money bank account. It's great to stop writing cheques to make your P.M. Credit Card payment. To know more visit www.investorfirst.in. Terms and conditions apply.</small>			
<small>* The Availability Limit shown in this statement turns into account charges incurred but not due. Please ensure that at least Rs Minimum Amount Due is paid by the Payment Due date. ** If the amount received is less or even amount less than the total amount due to pay, interest charges are applied on the balance carried forward plus new payment, if any.</small>			
<small>To convert any of the above purchases into easy EMIs, please call 24-Hour Moneyedge. * Condition apply</small>			



<p>Please do not attach any correspondence along with your payment.</p> <p align="center">HOW TO MAKE PAYMENTS</p>  <p>Making payments for your PocketMoney bank Gold Card dues is really simple. All you need to do is to check the 'Minimum Amount Due' column in your Monthly Statement and write a cheque for the same amount on your Credit Card. (Please mention your Card number) as shown in the visual above. Also, remember to write your contact details on the reverse of the cheque.</p> <p>Mail your payments to:</p> <ul style="list-style-type: none"> • PocketMoney bank Cards, P.O. Box 5496, G.P.O., Bangalore 560 001 • PocketMoney bank Cards, P.O. Box 5265, Post Office, Chennai 600 002 • • PocketMoney bank Cards, P.O. Box 5265, Post Office, Mumbai 400 001 • • PocketMoney bank Cards, P.O. Box 6059, Panvel Post Office, Mumbai 400 021 • • PocketMoney bank Cards, P.O. Box 465, G.P.O., New Delhi 110 001 <p>(Please do not send registered mail or courier packets to these P.O. Box addresses.)</p> <p>Drop your Cheques/Drafts at: Drop Boxes at select courier locations Drop Boxes at select merchant locations • Drop Boxes at any PocketMoney bank Branch Drop Boxes at PocketMoney bank ATMs</p>		<p>For a detailed listing of courier locations, PocketMoney bank Branches, PocketMoney bank ATMs, please visit us at www.pocketmoney.com/India or call 24-Hour PocketMoney Phone on 1800-100-244653. You can also write to us at Moneyedge bank Card Center, 765, Kalina 400 052.</p> <p>Pay online: You can also pay for your Credit Card outstanding online at www.pocketmoney.com/India. If you do not have an Internet Password (I-PIN), please call 24-Hour PocketMoney.</p> <p>Pay through ECS: You have the option of making payments for your Credit Card outstanding through the Electronic Clearing System (ECS). This facility is available at the following branches: Bangalore, Chennai, Delhi, Hyderabad, Kolkata, Mumbai, Pune and Chandigarh.</p> <p>Call 24 Hour PocketMoney Phone in any city for further details: Ahmedabad-26404653, Bangalore-222244653, Calcutta-24584653, Delhi/Gurgaon-1800-114-2564653, Hyderabad-66624653, Indore-1800-180-2484, Jaipur-5114653, Kochi-98950 12653, Kolkata-22584653, Lucknow-2231044, Ludhiana-26404653, Mumbai-1800-180-2484, Nagpur-1800-180-2484, Noida-1800-180-2484, Noida-1800-120-2484, Noida-2454653, Pondicherry-98640 14653, Trichy-86240 14653, Thrissur-98950 14652, Vellore-4224653, Vizag-95-225-2314653. Visakhapatnam-1800-180-2484.</p> <p>*Please call this number from a BSNL / MTNL landline only.</p>																		
<p align="center">MOST IMPORTANT TERMS AND CONDITIONS</p> <p>1. FEES AND CHARGES:</p> <p>The schedule of charges as applicable on date is provided below:</p> <table border="1"> <thead> <tr> <th>Description of charges</th> <th>Joining & Annual Fees</th> </tr> </thead> <tbody> <tr> <td>Penalty Card</td> <td>Free for both Primary and Additional Cardmembers will be communicated at the time of account opening.</td> </tr> <tr> <td>Cash Advance Fee</td> <td>US \$ 1.5 (International ATM)</td> </tr> <tr> <td>Late Payment Charge (Per month)</td> <td>• Rs. 800 to bills above Rs. 10001-25000 • Rs. 700 to bills above Rs. 25000</td> </tr> <tr> <td>Over Credit Limit Charge</td> <td>Rs. 100 per bill above Rs. 10001-25000 (10% of Indian Oil Outlays for transactions done on Oil Cards) 10% • Rs. 100 per transaction value for regular transactions (subject to a minimum of Rs. 25)</td> </tr> <tr> <td>Non-Wallet Teller Banking or Correlation Surcharge (Corral banking, Automatic Teller Machine Surcharge (External Banking))</td> <td>• 1% of transaction value for regular transactions • 2% of transaction value for ATM transaction</td> </tr> <tr> <td>Statement Request (Beyond 5 months)</td> <td>Rs. 100</td> </tr> <tr> <td>Stolen or Damaged Card</td> <td>Rs. 100 per cheque</td> </tr> <tr> <td>Overstation Cheque Card</td> <td>Foreign Currency Transaction Mark Up of 3.5%</td> </tr> </tbody> </table> <p>Interest will be charged on the Outstanding balance of the statement. The interest rate is subject to change, we may review regulations or the Government of India, is applicable on all fees, interest and other charges and subject to change, we may review regulations or the Government of India.</p> <p>b. Finance Charges (Interest Charges):</p> <ul style="list-style-type: none"> Interest will be charged if you (the cardholder) do not pay back the previous bill in full and also on all Cash Advances from the date of transaction until the date of settlement. Your interest rate will be calculated based on your average daily balance, periodically based on your spend, pay back and utilization patterns. Your rate of interest can increase upto 2.5% per month (4-4.25% annualized), in case of default, all charges are dynamic, and are subject to change based on fluctuations in our portfolio. <p>Illustrative Example for Interest Calculation: Assume you have a statement for the period 15 Oct to 15 Nov, with a payment due date of 3 Dec for an amount of Rs. 3000. You make a purchase of Rs. 2000 on 15 Oct. On 15 Nov, you make a purchase of Rs. 1000. You make a payment of Rs. 2000 on 3 Dec. You make no further payment on your Card till 17th April. In this example, Interest will be calculated as follows: On the balance of Rs. 3000 (15th-20th March) for 8 days: 12.5% of Rs. 3000 = Rs. 375 On the balance of Rs. 2000 (21st-26th March) for 5 days: 12.5% of Rs. 2000 = Rs. 250 On the balance of the bill (27th March - 17th April) for 3 days: 12.5% of Rs. 1000 = Rs. 125</p> <p>NOTE: If you spend Rs. 3000/- and you pay back exactly the minimum amount due every month, then you will not be charged interest. Therefore, you should, whenever your cash flow allows pay back automatically more than your minimum dues. This will also help open up your funding window and improve your credit rating.</p> <p>c. Interest Free Grace Period: Interest will not be charged on the principal amount until it is due after the Payment Due Date.</p> <p>Illustrative Example for Calculation of Late Payment Charge: Assume you receive a statement for the period 15 Oct to 15 Nov, with a payment due date of 3 Dec for an amount of Rs. 3000. You make a purchase of Rs. 2000 on 15 Oct. On 15 Nov, you make a purchase of Rs. 1000. You make a payment of Rs. 2000 on 3 Dec. You make no further payment on your Card till 17th April. In this example, by the payment due date (3 Dec), to ensure that no late payment charges are levied, if you fail to do so, then late payment charges would be levied based upon the total amount outstanding on the card, as per the following table: Rs. 300 for bills upto Rs. 10000 Rs. 500 for bills between Rs. 10001-25000 Rs. 700 for bills above Rs. 25000</p> <p>Thus, in the example detailed above, if you make a payment only on us, say 7 Dec, Rs. 300 will be levied as Late Payment Charge. This will be waived off if you make a payment of less than the minimum amount due (Rs. 300, in this example) by the payment due date.</p> <p>d. Interest Free Grace Period: Interest Free Grace Period.</p> <p>Illustrative Example for Grace Period Calculation: Assume you receive a statement for the period 15 Oct to 15 Nov, with a payment due date of 3 Dec. Assuming you have (all) back your previous month's bill in full, the grace period would be: 1. From 15th Oct to 15th Nov (15 days) 2. From purchase date (14 Dec) interest free grace period of 14 Dec to 3 Jan=24 days</p> <p>Thus, the grace period can vary depending upon the date of the purchase. However, if you have not paid the previous month's balance in full or if you have availed of cash from an ATM, then there will be no interest free period.</p>			Description of charges	Joining & Annual Fees	Penalty Card	Free for both Primary and Additional Cardmembers will be communicated at the time of account opening.	Cash Advance Fee	US \$ 1.5 (International ATM)	Late Payment Charge (Per month)	• Rs. 800 to bills above Rs. 10001-25000 • Rs. 700 to bills above Rs. 25000	Over Credit Limit Charge	Rs. 100 per bill above Rs. 10001-25000 (10% of Indian Oil Outlays for transactions done on Oil Cards) 10% • Rs. 100 per transaction value for regular transactions (subject to a minimum of Rs. 25)	Non-Wallet Teller Banking or Correlation Surcharge (Corral banking, Automatic Teller Machine Surcharge (External Banking))	• 1% of transaction value for regular transactions • 2% of transaction value for ATM transaction	Statement Request (Beyond 5 months)	Rs. 100	Stolen or Damaged Card	Rs. 100 per cheque	Overstation Cheque Card	Foreign Currency Transaction Mark Up of 3.5%
Description of charges	Joining & Annual Fees																			
Penalty Card	Free for both Primary and Additional Cardmembers will be communicated at the time of account opening.																			
Cash Advance Fee	US \$ 1.5 (International ATM)																			
Late Payment Charge (Per month)	• Rs. 800 to bills above Rs. 10001-25000 • Rs. 700 to bills above Rs. 25000																			
Over Credit Limit Charge	Rs. 100 per bill above Rs. 10001-25000 (10% of Indian Oil Outlays for transactions done on Oil Cards) 10% • Rs. 100 per transaction value for regular transactions (subject to a minimum of Rs. 25)																			
Non-Wallet Teller Banking or Correlation Surcharge (Corral banking, Automatic Teller Machine Surcharge (External Banking))	• 1% of transaction value for regular transactions • 2% of transaction value for ATM transaction																			
Statement Request (Beyond 5 months)	Rs. 100																			
Stolen or Damaged Card	Rs. 100 per cheque																			
Overstation Cheque Card	Foreign Currency Transaction Mark Up of 3.5%																			

SECRET PIN (Sample Copy)





Can you guess what goes on at these counters?



Can you guess what goes on at these counters?

What is a Demand Draft?

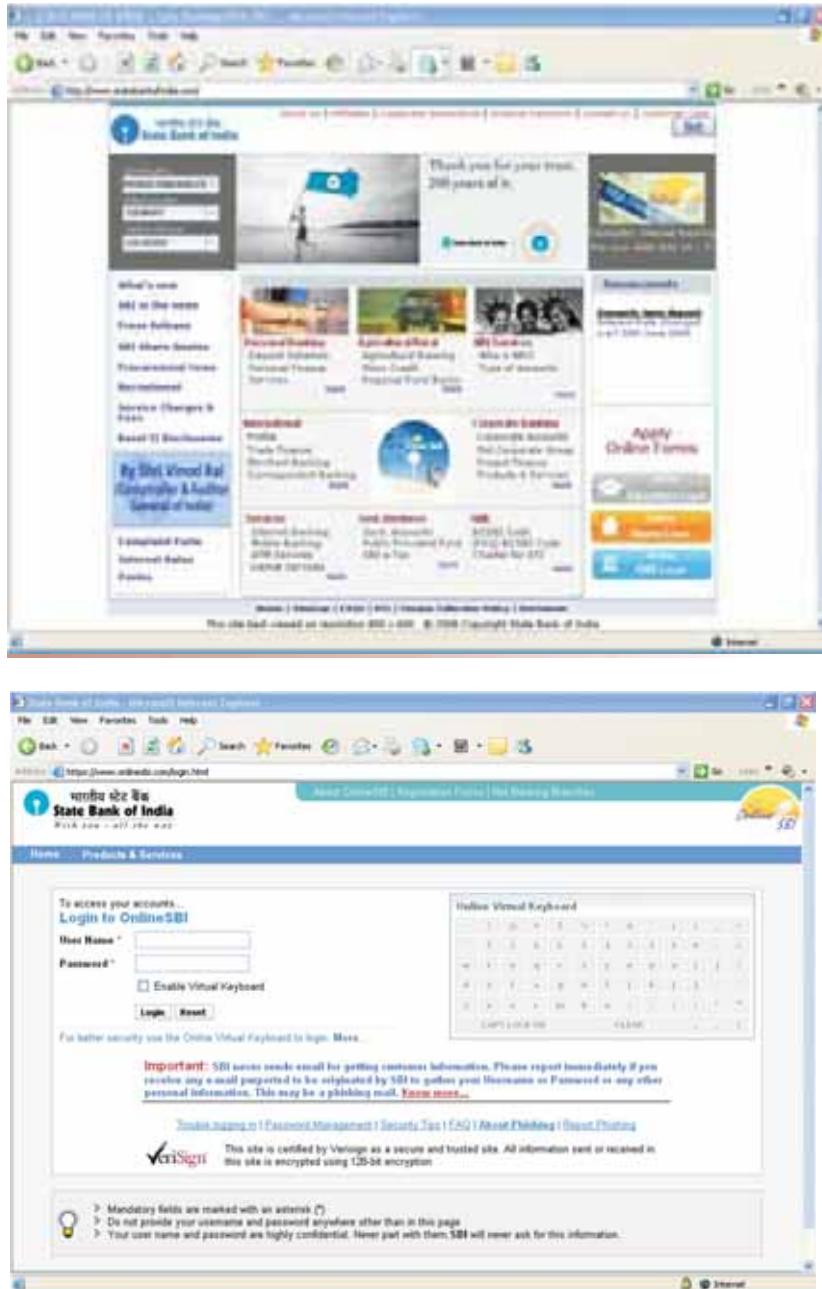
DEMAND DRAFT REQUISITION FORM (Sample Copy)

POCKET MONEY Bank	DEMAND DRAFT / CASHIER'S ORDER REQUISITION FORM																	
Please Fill using BLOCK LETTERS																		
Branch Name _____	<input type="checkbox"/> Please 'V' where applicable																	
Indicates mandatory information to be provided																		
Applicant's Information (Beneficiary) Name of Beneficiary _____ <small>(In BLOCK letters)</small> Address _____ <small>Ex: Room No. 101, Flat No. 101, 10th Floor, Parel, Mumbai - 400 011</small> Contact Telephone Number _____																		
<small>Date: DD MM YYYY</small> <small>DD Month Year</small>																		
DRAFT/CASHIER'S ORDER Instructions																		
<small>Payment Method:</small> <input type="checkbox"/> From Account		<small>Charges to be debited:</small> <input type="checkbox"/> From Account* <input checked="" type="checkbox"/> From Draft/Cashier's order																
<small>Debit A/c No.*</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table>						<small>Debit A/c No.*</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>												
<small>Currency</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>										<small>Currency</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								
<small>Account</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>										<small>Account</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>								
<small>Draft / Cashier's Order Amount:</small> <small>Currency</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> <small>Amount</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>																		
<small>Conversion at</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table> <small>Amount</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>																		
<small>Please enter draft/cashier's order amount or equivalent currency to be converted*</small> <small>(Cashier order's can be issued only in local currency)</small>																		
<small>Currency and amount (Words):</small> <i>Ten Thousand Only</i>																		
<small>Beneficiary (In BLOCK letters)</small> <small>Name:</small> <i>Savitribai S.</i> <small>Address:</small> <i>Blood no 6 B wing Plot no 10 Yerwada Pune - 411 021</i> <small>Beneficiary Account No.:</small> <i>5402 0487 1501 1928</i> <small>Beneficiary Bank name and address:</small> <i>Mangaladevi Bank Ltd, Santacruz, Mumbai - 400 050</i>		<small>Draft / Cashier's Order deposit</small> <input type="checkbox"/> Hold the instrument for collection by me at the bank <input type="checkbox"/> Send to my address by mail <input type="checkbox"/> Send to the beneficiary's address by mail <small>Note: For third party collection, separate authority letter to be provided</small>																
<small>Purpose of Payment:</small>																		
<small>Contract Details (as applicable):</small> <small>Forward/Contract/Treasury Deal No.:</small> _____ <small>FX rate:</small> _____ <small>Debtor's Name:</small> _____		<small>Bank use only</small> <small>Reference No.:</small> 0000 <small>Signature verified:</small> <input type="checkbox"/> <small>Fax Identity held:</small> <input type="checkbox"/> <small>ACB reporting:</small> <input type="checkbox"/> <small>Report to State Banker:</small> <input type="checkbox"/> <small>AAA checked:</small> <input type="checkbox"/> <small>Fund sufficiency:</small> <input type="checkbox"/> <small>Check performed by:</small> _____ <small>Ref ID:</small> _____ <small>Call back confirmed with:</small> _____ <small>Date & Time:</small> _____ <small>Processed by:</small> _____																
<small>Principal Account Holder Signature:</small>  <small>Secondary Account Holder Signature:</small> 																		

DEMAND DRAFT (Sample Copy)

<small>Issue by Branch: Santacruz</small> <small>Key: 8 8 8 8 8</small>	<small>Customer: T-05-2000</small> <small>Pay on Demand Pay: 04/05/2001</small>	<small>ON ORDER</small> <small>Ru. 10000 Value received</small> <small>G.D. Khanji Branch Manager</small>										
<small>Amount:</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>												
<small>Payee:</small> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td>ONE</td><td>ZERO</td><td>ZERO</td><td>ZERO</td><td>ZERO</td></tr><tr><td>THOUSAND</td><td>HUNDRED</td><td>ONE</td><td>ONLY</td><td>LEADS</td></tr></table>		ONE	ZERO	ZERO	ZERO	ZERO	THOUSAND	HUNDRED	ONE	ONLY	LEADS	
ONE	ZERO	ZERO	ZERO	ZERO								
THOUSAND	HUNDRED	ONE	ONLY	LEADS								
<small>Code No.: 8 8 8 1 2</small>												
<small>PRE-DT REC'D BY: SANTACRUZ</small>												

The bank comes calling





Can you guess what this is?

What is Internet-banking or e-banking?

What is Tele-banking?

**ACTIVITY: DRAW (A CHEQUE) TO WITHDRAW (CASH)
WITHDRAW SLIP (Sample Copy)**

PASS BOOK MUST ACCOMPANY THIS ORDER FORM.						
POCKET MONEY Bank		S. N.	SCROLL NO.	INITIALS	L. F. NO.	POSTED
BRANCH _____		_____ 200				
PLEASE PAY SELF RUPEES _____						
AND DEBIT MY / OUR ACCOUNT		Ra. _____				
SAVINGS BANK A/C NO. _____		DEPOSITORS (S)				

SAMPLE

Chetan: How do I get the money?



CHEQUE (Sample Copy)



MICR CHEQUES

What is MICR?

BANKING MINI-QUIZ

1. A cheque once issued remains valid for ever. TRUE/FALSE
2. Once you have issued a cheque you can not stop its payment. TRUE/FALSE
3. Issuing a cheque without having money in your account is a crime. TRUE/FALSE.
4. There is a minimum and a maximum amount for which you can issue a cheque. TRUE / FALSE
5. Keeping signed blank cheques makes it convenient to withdraw money when you need. TRUE / FALSE



SMART PREVIEW

- Stock Market
- Stock Exchanges
- Investing in shares

SESSION 5

STALKING THE STOCKS



MY LAST DEPOSIT



- Having a bank account enables you to
 - earn interest on your savings
 - keep your savings safe
 - access your savings when you need
 - carry out financial transactions
- You can open and operate a bank account even if you are less than 18 years old
- Technology has made banking convenient
- We must observe certain safety measures with regard to banking



QRIOSITY



Can you identify this building?

What happens inside this building?

What do the bull and the bear have to do with it?

DARE TO SHARE

Adi wants to start a company, M/s Unisev Tattoos Limited, with 6 friends as above. Adi invests Rs. 400 and invites the friends to invest Rs. 100 each, to which all the friends agree. Thus, the total capital of the company would be Rs._____. This amount is called the **equity** of the company.

Adi decides to split the equity of the company into 100 equal parts so that each part is of value Rs._____. Each of these 100 equal parts is called an **equity share** (or simply, a **share**) of the company. Thus, ____ equity shares make the total capital of Rs._____. Rs.10 is the **face value** of each share.

As each of the six friends pays Rs.100, each of them gets ____ equity shares. As Adi had invested Rs.400, Adi gets ____ equity shares. All of them become the **shareholders** of the company.

Unisev Tattoos carries out operation for about an year and everyone expects the company to declare some profit at the end of the year.

Pratham wants to sell all 10 shares as Pratham needs money, but Pratham expects little more than Rs.100 as the money was invested for almost an year. Ashtam is willing to pay Rs.12 per share to Pratham as the company is expected to pay some portion of its profit to its shareholders. Rs.12 is the **market value** of its share i.e. the price at which the shares are now available in the market. Ashtam pays Rs.____ to Pratham and buys the 10 shares from Pratham.

The difference between the market value (if higher than the face value) and the face value is the **premium**. If the market value is lower than the face value, then the shares are said to be at a **discount**. Thus, Ashtam pays a _____ of Rs.____ per share.

For the whole year the company makes an excellent profit of Rs.500 and decides to distribute Rs.200 to the shareholders. The shareholders, _____, _____, _____, _____, _____, _____, and _____, each get a share of the profit in proportion to their shareholdings at the rate of Rs.____ per share. This is called the **dividend**. Adi, Ashtam, and Pratham will get dividend for ___, ___, and ___ shares respectively. **Dividend is payable on the face value of a share.**

Now, answer the following questions.

1. What is the dividend received by Adi? Rs.____
2. What is the dividend received by Ashtam? Rs.____

Let us now work out two important indicators relating to shares. These are:

(1) Earning per share (EPS)

(2) P/E

Theory-Wise

Shareholders: Individuals who buy (in other words invest in) shares of a company are the owners of the company and are referred to as shareholders. Share holders usually have voting rights and can, thus, participate in management of the company.

Now, work out these two indicators for M/s Unisev Tattoos Limited.

(1) EPS =

(2) P/E =

CUES FROM THE NEWS

Your teacher will explain you the different terms relating to investment in stocks.

Note the definitions in the space provided below the terms.

Established in 1602 Amsterdam Stock Exchange is the oldest in the world

15 Apr 2006, 2058 hrs IST

Although the origins of stock exchanges can be traced back to the stock exchange in Antwerp (1460), the Amsterdam Stock Exchange is considered the oldest in the world.

1. Equity Shares:

Reliance Power to raise IPO at face value of Rs 10

26 Nov, 2007, 0245 hrs IST, TNN

MUMBAI: Anil Ambani group has sought market regulator Sebi's nod to

float Reliance Power's initial public offer at a face value of Rs 10 a share

2. Face Value:

Theory-Wise

Listing means making a share available for trading on a stock exchange. Listing also provides a mechanism for effective control and supervision of trading.

Kernex Microsystems India has recommended a dividend of 10%

27 Jun, 2008, 1530 hrs IST,

Kernex Microsystems India has recommended a dividend of 10% on equity share of Rs 10 each for the year ended March 31, 2008 subject to the approval of the shareholders at the ensuing Annual General Meeting. The shares were down 4.98 per cent at Rs 115.40 on BSE.

3. Dividend :

Theory-Wise

Market capitalization of a company is the total market value of all the shares of a company.

Total market value of all NSE-listed firms inches towards trillion dollar mark

2 Jul, 2008, 2214 hrs IST, PTI

At the end of today's trading, the total market value of all NSE-listed firms stood at about 950 billion dollars (Rs 41,08,689 crore), after falling below Rs 40,00,000 crore level yesterday.

There are just about a dozen countries

Theory-Wise

Securities are financial instruments such as shares, debentures of a company or body corporate or a government.

4. Market Value:

UBS Investment lowers EPS estimate for Suzlon Energy

16 Jul, 2008, 1128 hrs IST, ET Bureau

UBS Investment has lowered its FY09 EPS estimate for Suzlon Energy by 20.5% to Rs 8.6, and FY10 estimate by 23.4% to Rs 12.2. It has also lowered the target price

5. EPS:

Soaring markets send P/E ratios to dizzy heights

6 Oct, 2007, 0344 hrs IST, Vijay Gurav, TNN

MUMBAI: The valuation game is hotting up like never before. Riding on the back of strong fund flows from foreign institutional investors, of many companies have soared to such an extent that they are now quoting at a price/earnings (P/E) ratio as high as 100 times and above.

6. P/E:

Established in 1602 Amsterdam Stock Exchange is the oldest in the world

15 Apr 2006, 2058 hrs IST

Although the origins of stock exchanges can be traced back to the stock exchange in Antwerp (1460), the Amsterdam Stock Exchange is considered the oldest in the world.

7. Stock Exchange:

SEBI proposes bourses for SMEs

27 May 2008, 0135 hrs IST,PTI

NEW DELHI: Acknowledging the concerns of the small and medium enterprises (SMEs) in accessing capital market, market regulator SEBI proposed a dedicated stock exchange for them with some relaxed norms.

8. SEBI:

Brokers dominate muhurat trading at Bombay Stock Exchange

23 Oct 2006, 0038 hrs IST,TNN

MUMBAI: The investing community ushered in Samvat 2063 with much fanfare on Dalal Street. On Saturday evening, in the presence of some of the top citizens from the Indian financial space, the BSE opened its special 75-minute trading at 6.15pm and the sensex ended the day 27 points higher.

9. Broker:

Theory-Wise

Nifty is the 50 stock index comprised of some of the largest and most liquid stocks traded on the NSE.

Dow Jones or DJIA (Dow Jones Industrial Average) is the index for the New York Stock Exchange and Nasdaq.

Sensex up 4%

18 Jul, 2008, 1840 hrs IST, Mohammed Sabir, ECONOMICTIMES.COM

MUMBAI: Investors had enough reasons to turn bullish on Friday and build on the gains of previous session. They not only covered short positions in interest sensitive sectors, but made fresh purchases in select blue chips.

10. Sensex:

Binani IPO price fixed at Rs 75 per equity share

11 May, 2007, 2220 hrs IST, PTI

MUMBAI: Binani Cement Ltd has fixed the offer price of its (IPC) of 20,500,000 equity shares for Rs 10 each at Rs 75.

11. IPO:

Bull run: Sensex creates history, scales Mount 10,000

7 Feb 2006, 0117 hrs IST, Partha Sinha, TNN

MUMBAI: Strange are the ways of the stock market. Monday's 250-point rally is a case in point.

12. Bull:

Bear bug: India's richest 5 incur Rs 5 tn loss

24 Jun 2008, 0138 hrs IST, AGENCIES

NEW DELHI: Companies run by India's five richest, including the two Ambanis, have lost a whopping Rs 5 trillion in the current bear phase that began early this year. The cumulative market value of companies belonging to the groups led by five

13. Bear:

Govt issues Rs 5,750-cr oil bonds

24 Mar 2006, 2342 hrs IST, PTI

NEW DELHI: The government has issued second tranche of Rs 5,750 crore bonds to three oil marketing companies, which have been witnessing pressure on margins due to mismatch between domestic and international crude rates.

14. Bonds:

Debentures set to attract lower stamp duty

13 Jul, 2007, 0312 hrs IST, Deepshikha Sikarwar, TNN

NEW DELHI: Stamp duty on debentures and is expected to be reduced soon. The government is likely to notify reduction in stamp duties on the financial instruments in two weeks. Although stamp duty on the instruments is levied and collected by the states, the Centre can raise or reduce the levy, according to a provision in the Stamp Duty Act.

15. Debentures:

2 lakh open new demat accounts in a single day

16 Jan 2008, 0007 hrs IST, Udit Prasanna Mukherji,TNN

KOLKATA: Call it growing proof of an cult or an IPO mania. An all-time record was created in the capital markets on Monday with more than two lakh depository participation (DP) accounts being opened on CDSL and NSDL on that day.

16. Demat Account:

Fincyclopedia

J.P.Morgan when asked what the stock market will do, replied, 'It will fluctuate'.

SHARE TRACKER

STOCKS ON BSE/NSE

BSE Code Company (Prev.Cl.) Open, High, Low, Close (Volume, Trades), Group P/E Mcap 52-WK H/L
500000 Aegis Logis, (178.55) 177,184, 172.05, 174.50 [8158, 255], B8.9. ..348 ..404/126

BSE Code: _____

Company: _____

Prev. Cl.: _____

Open: _____

High: _____

Low: _____

Close: _____

Volume: _____

Trades: _____

Theory-Wise

Dematerializing a security means converting it from physical form to electronic form. These securities in electronic form are held by an organization called Depository. A **depository** is like a bank wherein the deposits are securities in electronic form.

Theory-Wise

There are two **depositaries** in India which provide dematerialization of securities. The National Securities Depository Limited (**NSDL**) and Central Securities Depository Limited (**CSDL**).

Group: _____

P/E: _____

Mcap: _____

52-Wk H/L: _____

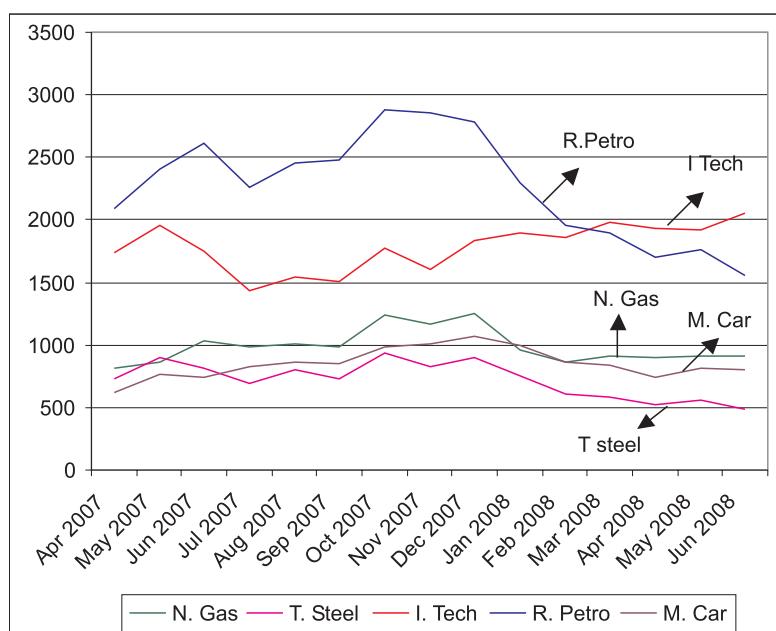
LET'S COMPARE

Assume that you are in early July, 2008.

During the latter half of the 12 month period for which data have been provided, the sensex has shown a lot of volatility and an overall downward trend.

In the context of the above scenario, evaluate and compare the performance of 5 shares for which data are provided below.

Follow your teacher's instructions.



	N. Gas	T. Steel	I. Tech	R. Petro	M. Car
EPS	71.65	58.93	78.11	105.53	53.12
P:E	10.61	10.8	21.19	18.44	11.41
Mkt Cap	74254	53211.79	99227.7	304285.3	17858.03
52 Weeks	High	1388.00	889.60	2140.00	3252.10
	Low	770.00	872.13	1212.20	1805.30
Current Price	814.70	728.35	1734.75	2063.25	617.75



N. Gas: _____

T. Steel: _____

I. Tech: _____

R. Petro: _____

M. Car: _____

SHARED WISDOM

1. Investing in the share market is a high risk – high gain proposition
2. It is important to study the performances of the stocks and the companies before investing
3. Investment is different from speculation
4. Do not put all your eggs in one basket – diversify
5. Remaining invested for a long term reduces probability of loss

Now, that you have learnt a lot about shares and stock markets, what are your answers to these questions?

1. Isn't investing in shares somewhat risky?
2. Isn't it necessary to have some expertise to succeed in the stock market?
3. Won't a person with a small amount to invest also like to diversify the investment?

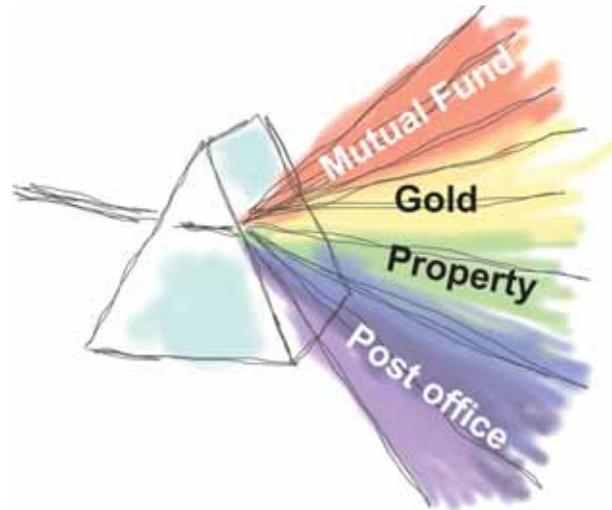
Is there a way out?

SMART PREVIEW

- Mutual funds
- Investing for different purposes
- Other avenues for investment
- Comparing different avenues of investment

SESSION 6

INVESTMENTS : THE WIDER SPECTRUM



MY LAST DEPOSIT

- Investing in shares of a company is like owning a small portion of the company
- Investing in debentures is lending money to companies
- Shareholders get a share of the company's profit in the form of dividend
- Investing in stock market has a risk component
- An investor needs expertise in studying the stock market to invest in stock market
- The index of a stock exchange gives a feel of the performance of stocks in that exchange
- SEBI is a regulatory body that oversees the activities in the stock market in India
- India is moving towards complete switchover to electronic (demat) format of trading in shares

QRIOSITY

The triangle of investment



When will the area of the above triangle be maximum?

What happens to the area when any of the sides becomes zero?

SHARED SHARES

This is the story of Sapnil, a person with small means but big dreams. When he reads the news about the continued bull run in the Indian stock market, he used to wonder why he is not able benefit out of it.

So, he consulted his friend Medha, who was an expert in financial matters and understood the stock market very well. Medha told Sapnil that while investing in stocks he should invest not just in one company's share but in shares of several companies. He should also invest not only in companies belonging to one sector, but companies from different sectors. He should study the performances of the companies before deciding to buy their shares. He should also be ready to keep the money invested for a long time, say 15/20 years. Having invested, he should also keep a constant watch on the performance of the companies



as well as the market trend so that he can buy/sell shares as necessary for best possible return.

Sapnil, now, was more confused. Neither he had that kind of money to invest in several companies, nor did he have the kind of expertise necessary. He was also not very sure if he will be able to keep the money invested for such a long time. It was possible that when he would need to sell a share, there may not be a buyer to buy it. So, there would be no liquidity.

When Sapnil told a group of his friends about Medha's advice, he found that there were several other persons, who were in the same boat.

Suddenly a brilliant idea struck one of his friends. They could pool the money they had and create a fund and then entrust that fund to Medha to invest in stock market. Medha agreed and told that she would keep a small portion of the fund in cash or invested in such a way that she would be able to repay, should anybody need to withdraw from the fund. But the fund would continue, so that they could get the benefit of long term investment. Medha would charge a small fee which all the investors readily agreed to pay.

Thus the friends became joint owners of the shares and other securities purchased from the money so gathered. Everyone of them had a share in the shares so purchased. The aggregate amount pooled by the investors was divided into small units and each investor became owner of certain number of units in proportion to the amount invested.

Thus a fund was created for the mutual benefit of the group of people who came together to reap the benefits from stock market.

Sapnil and his friends were now looking for a name for this novel fund.



And ultimately they decided to call it a _____ Fund
The benefits Sapnil and his friends got by starting the _____ Fund are:

1. **Small Investments:** _____

2. **Spreading risk:** _____

3. **Professional fund management:** _____

4. **Long term investment:** _____

5. **Liquidity:** _____

SEBI THE SAVIOR

What will happen if Medha does any of the following?

- (i) Buys shares of a company belonging to one of her relatives although she knows that it is not in the interest of the investors.
- (ii) Does not pass on the benefit of appreciation in values of the shares to the investors.
- (iii) Does not keep the investors informed about periodical position of the fund.
- (iv) Starts levying exorbitant charges for her services

What is SEBI:

- In India, SEBI (Securities Exchange Board of India) is the body for protecting the interest of the investors in mutual funds and other kinds of securities in the stock market.
- In India all mutual funds must be registered with SEBI.

USE NAV TO NAVIGATE

MUTUAL FUNDS					
BUSINESS STANDARD		Stay updated with BSE stock ticker through the day.		Visit - www.businessstandard.com	
Name	Curr NAV	1 yr ago	Name	Curr NAV	1 yr ago
MID CAP F-RP-G	9.34	24.09	MID CAP F-RP-D	9.54	22.09
MID CAP F-RP-D	10.01	05.09	TAX GAIN-RP-O	9.14	04.99
EQUITY					
MID CAP F-RP-D	9.34	24.09	MID CAP F-RP-G	9.34	20.09
TAX GAIN FUND	8.34	36.02	MID CAP F-RP-D	9.54	22.09
			EQUITY GROWTH	8.34	18.09
			OPP FUND-D	10.54	30.09

What does NAV stand for?

What does upward/downward movement of the NAV of a fund indicate?

Charges for going mutual

What are the charges that you have to pay if you want to invest in Mutual Funds?

- (1) _____
- (2) _____

Theory-Wise

NAV: Net Asset Value is the total market value of the shares in which the mutual fund has invested its money-pool.

Theory-Wise

Entry/Exit Load: A Load is a charge, which the mutual fund collects on entry and/or exit from a fund. A load is charged to cover the cost incurred by the mutual fund when it buys or sells shares in the stock market.

Theory-Wise

$$\text{NAV per unit} = \frac{\text{NAV}}{\text{no of units outstanding}}$$

MUTUAL FUNDS : CHOICES GALORE

Mr. Mani, Ms. Asha, Mr. Raghu and Mr. Anuj are ready to invest different amounts of money. They also have different needs. so they decide to consult Mr. Viz, an investment advisor.

Mr. Mani: I have about one lakh to invest. But is it absolutely safe to invest in mutual funds?

Ms. Asha: I have about a lakh to invest. But will I have enough liquidity if I invest in mutual funds? Can I get the money back when I need it?

Mr. Raghu: I have about a lakh to invest. But can I get a regular income from mutual fund?

Mr. Anuj: But what about me? I do not have that big a sum readily with me, but can invest a small amount regularly -- a few hundreds, or so - every month. Can I get the benefit of mutual funds?

Mr. Viz: Perhaps, I can not say 'yes' to Mr. Mani. But, mutual funds can meet the need of everyone of these persons.

TYPES OF MUTUAL FUNDS

Equity mutual funds
(also known as growth funds): _____

Debt funds: _____

Balanced funds: _____

Tax Saving Funds: _____

Open-ended Funds: _____

Close-ended Funds: _____

Growth Plans: _____

Dividend Plan: _____

Systematic Withdrawal Plan (SWP): _____

Systematic Investment Plan (SIP): _____

Can you choose the right type of mutual fund for Mr. Mani, Ms. Asha, Mr. Raghu, and Mr. Anuj?

Mr. Mani: _____

Ms. Asha: _____

Mr. Raghu: _____

Mr. Anuj: _____



EUREKA'S SOLUTIONS

Mr. Eureka, the financial wizard keeps meeting people from different backgrounds and professions. These diverse individuals have different financial needs and aspirations. Mr. Eureka's job is to give them the best possible solution. Mr. Eureka does not speak too much while giving a solution. He just answers in one or two words and then his assistant elaborates the point. Here are the backgrounds of the different individuals that he has met over the last week.

1. Mr. Amar Verma, a young professional:

Works for a private company

The company will not offer him a pension after he retires.

He wants the investment to be secure and offer him a lumpsum amount after his retirement along with tax benefits.

Mr. Eureka says: PPF is the solution, my friend.

Mr. Eureka's assistant explains:



Features of Public Provident Fund:

- (1) The scheme is for 15 years.
- (2) You can invest any amount from ₹ 500 to ₹ 1,00,000 per year
- (3) The interest as well as permitted withdrawals are tax free.
- (4) Contributions are eligible for deduction from taxable income of a person within limits.
- (5) There are loan facility and partial withdrawal facility available under the scheme.

2. Mr. Bipin Dey, a college student:

- Saves a small amount every month and deposits the money in his savings bank account
- The savings bank account offers him an interest of 3.5%. But he wants his money to grow faster.
- His college classes and practical assignments keep him fairly busy. He does not have the time or the expertise to invest in share market.
- Wants a solution within the bank.

Mr. Eureka says: Either an S.I.P or a Recurring Deposit Account would be the best solution.

Mr. Eureka's assistant explains:

The major advantages of SIP:

- (i) **Power of compounding:** Money grows more due to the effect of compounding.
- (ii) **Discipline and convenience:** A small amount invested regularly does not pinch much but adds up to a big sum. The process is also very convenient as the contribution can be made directly from the bank account.

3. Mr. Rucha Bhatia, a professional:

- Earned a considerable amount through out the year, invested a lot of money in shares, fixed deposits, Systematic Investment Plan and growth mutual funds.
- However, at the end of the year she had to pay huge amount of income tax.
- Wants a way to reduce her tax liability.

Mr. Eureka says: The option for you is National Saving Certificates.



Mr. Eureka's assistant explains:

National Savings Certificate:

• **NSC Series VIII:**

This is five years deposit scheme earning interest @ 8.5% p.a.. (Interest compounded every 6 months)

• **NSC Series IX:**

This is ten years deposit scheme earning interest @ 8.8% p.a.. (Interest compounded every 6 months)

Amount invested in both schemes are also eligible for deduction from taxable income within limits.

Available in post offices or through agents.

4. **Mr. Chatterjee:**

Has just retired: does not keep too well,

Has a post office close to his home, wants a regular income

Mr. Eureka says: Your solution is just next door! The Post Office Monthly Income Scheme!

Mr. Eureka's Assistant explains:

Post Office Monthly Income Scheme:

A lumpsum investment is made in the post office for 5 years at a monthly interest of 8.4%.

The interest earned on the amount is paid as monthly income to the investor.

5. **Mrs. Rashmi Tripathi, a home-maker:**

Wants to save for her daughter's wedding.

She manages to save some money almost every month cannot save a fixed amount. Her savings are variable.

Mr. Eureka says: Think Gold!

Mr. Eureka's assistant explains:

- (1) Buying jewelry is not equivalent to investing in gold
- (2) If you invest in gold in physical form, ensuring physical safety of gold purchased becomes an issue
- (3) Several banks have started selling gold coins and bars
- (4) Of late, gold market has also become volatile

Additional information for the teacher: Recently avenues have opened up for investment in gold in non-physical form.(Gold fund).

6. Mr. Gurpreet Singh, a wealthy businessman:

- Has invested in shares, mutual funds, fixed deposits etc. He has also invested in tax saving options.
- He wants a very good return over a period of time.
- He is in no hurry for the returns and can stay invested for a long time.

Mr. Eureka's answer: Have you thought about Real Estate?

Mr. Eureka's assistant explains:

Advantages of investing real estate:

- One can save on rental expenditure by owning a house or can increase his income by renting out the house.
- The value of the property purchased usually goes on increasing. This is called capital appreciation.
- Provides cushion against inflation.
- A person can stay invested in diverse options.





7. Mr. Roshan Vesuwala:

- About 30 years old working professional. His family includes his wife, who is a homemaker and a 7-year old daughter.
- Wants to ensure a financial security cover for his family in situations like his accidental death.

Mr. Eureka says: Get your life insured my friend!

Mr. Eureka's assistant explains:

Insurance is protection against financial risk for payment of a fee. Life insurance enables a person to meet liabilities in case of unforeseen circumstances leading to stoppage of income due to death or disability. One has to pay a fixed sum of money every month/year and this fixed sum is called premium.

There are broadly three types of life insurance.

- **Pure risk or Term Insurance** - where the entire premium goes towards insurance
- **Endowment policies** - where the balance of the premium after providing for life risk is invested to create a fund (endowment) and repaid with or without profit after the period of insurance.
- **Whole life policies** - where the insured amount with accumulated funds is paid to the legal heir of the person insured.

Today almost every insurance company offer the facility of Unit Linked Insurance Plan (ULIP) which combines the benefit of Insurance and Mutual fund. It is just like an endowment policy where the investment is made in mutual funds.

8. Mr. Sebin D'Costa, a middle-aged man

- Has just lent Rs. 50,000 to his friend for a heart surgery. He wants to save himself from the embarrassing situation of borrowing money from his friends in case of medical emergency.
 - Wants to make provision for his medical expenses.
- Mr. Eureka says:** Get Medical Insurance!

Mr. Eureka's assistant explains:

Medical insurance is extremely important in the current context where the cost of hospitalization has become very expensive. Medical insurance requires you to pay a premium every month/year. In return, the insurance company promises to pay your medical bills in situation of medical emergency. The amount of premium payable depends on the amount of insurance coverage you take.

Government also provides some income tax relief on premium paid towards medical insurance.

ACTIVITY: PLAY FINANCIAL ADVISOR

Now that you know a lot about different avenues available for investment, can you recommend suitable plans for investment by the different members of a family? You can take help from the Financial Adviser's Guide given in the next page

A family of four members, has come to you for financial advice. Mr. Suresh Menon is 47 year old and is an employee in a bank. He is concerned about the future of his family in a situation arising out of his sudden death. Satish, Mr. Menon's son who is a third year student in a engineering college, earns some money by working part time in a restaurant. Renu, 22 years is Mr. Menon's daughter and has just started working as a



freelance fashion designer. Mr. Vishal Menon, father of Mr. Suresh Menon is 70 years old and is a retired individual. He had received a lumpsum amount of Rs.100000 as retirement gratuity.

The Person	Type of investment

FINANCIAL ADVISER'S GUIDE



Phase I Age 18 to 30 yrs Education	Phase II Age 30 to 60 yrs Earning Years	Phase III Age 60 to 80 yrs Earning Years	Phase IV Age 80+ yrs Post Retirement Years
<ul style="list-style-type: none"> There is very small or no regular income. So, can not make big investments. 	<ul style="list-style-type: none"> Unlikely to have big investment to fall back upon. So, can not take risk with entire investable fund. 	<ul style="list-style-type: none"> This is the time, after accumulation of some savings. 	<ul style="list-style-type: none"> This is the time when risk taking capacity comes down. So, there is need for safe investment avenues.
<ul style="list-style-type: none"> This is the time to understand different avenues for investment. 	<ul style="list-style-type: none"> On the other hand, the investor has plenty of time to recoup any loss due to any risk taken in this stage of life. 	<ul style="list-style-type: none"> The investor can explore the stock market either directly or through the mutual fund route... depending on risk appetite. 	<ul style="list-style-type: none"> Need to provide for health care.
<ul style="list-style-type: none"> Can develop a habit of saving and investing with safe-around-regular savings. 	<ul style="list-style-type: none"> (S) The investor can think of investing a small portion (10 to 20%) of the savings in high risk/high return investment avenues in tune with the investor's risk appetite. 	<ul style="list-style-type: none"> Tax saving schemes become more attractive at this stage. 	<ul style="list-style-type: none"> Need regular income from investments.
<ul style="list-style-type: none"> Must open bank accounts and become familiar with banks and banking transactions. 	<ul style="list-style-type: none"> This is the time to invest some portion of savings (20-25%) in long term regular investment schemes - Pension Plans/ SPP/ ULIP 	<ul style="list-style-type: none"> High time to acquire residential accommodation, if not acquired earlier (Real Estate Investment) 	
	<ul style="list-style-type: none"> Long term insurance Policies need to be considered as premiums will be low. 	<ul style="list-style-type: none"> Need investment to provide for retirement. 	
	<ul style="list-style-type: none"> Need to look at tax-saving Schemes depending on need. 	<ul style="list-style-type: none"> Keeping investments diversified is very important. 	
	<ul style="list-style-type: none"> Right time to open a PPF Account. 		
	<ul style="list-style-type: none"> Acquiring a residential accommodation should be under active consideration. 		

SMART PREVIEW

In the next class we shall look at borrowing.

- When to borrow and when not to borrow
- Credit Cards: use and misuse
- Cost associated with borrowing
- Various types of Bank Loans

SESSION 7

BEYOND SAVINGS : BORROWING



MY LAST DEPOSIT

- Mutual Funds make it easier for inexperienced persons to invest in stock markets
- There are different types of mutual funds depending on
 - where the fund is invested
 - flexibility of entry/exit
 - manner in which you invest in or withdraw from the mutual fund
- There are other ways to invest beyond bank deposits and stock markets
- Some deposit schemes provide tax benefit some others do not
 - Post Office Small Saving Schemes are very convenient and popular for rural investors
 - Public Provident Fund is a convenient investment avenue with tax benefit
 - Gold and Real Estate also provide investment opportunity



Q-RIOSITY

“One that goes a – borrowing goes a sorrowing”

— Benjamin Franklin

Is borrowing always bad? _____

TO B OR NOT TO B : TO BORROW OR NOT TO BORROW

Let's consider the cases of two friends

Case of Shatish

About a year back Shatish took a loan of Rs.10,000 to buy a new cell phone costing Rs.11,990. Today he finds that the price of that cell phone has come down to Rs.6,999. Now he is wondering why he took a loan. He should have saved money to buy the cell phone – so that he would not only have got the cell phone at a lower price but also have saved the money that he had to pay towards interest on the loan. In addition, he would have earned some interest on the money that he would save!

Case of Ashish

About two years back Ashish was looking at a proposal to buy a 2BHK (Two-Bedroom-Hall-Kitchen) accommodation. He dropped the idea as neither did he have the money to buy the property nor was he prepared to take a home loan. Now he finds that the price of the same property has gone up. He is wondering why he did not take a home loan and buy the property at that time! If he had availed a home loan

he would have not only saved the rent he paid for his accommodation but also got some tax benefits.

Was it wise for Satish to take a loan to buy the cell phone?

Was it wise for Ashish **not** to take a loan to buy the property assuming that he was eligible for the loan?

Under what circumstances will it be wise to borrow?

1. _____

2. _____

3. _____

Theory-Wise

EMI = Equated Monthly
Installment

COST OF BORROWING

Following are three advertisements.

0% interest

Interest 5%
Flat

Advance
EMI - 0%
interest

Which one is the best for the borrower? _____

Why does any business enterprise lend money?

Interesting Interest and EMI

Amrita, a class X student, studies in a residential school. She is a very good painter and wants to gift a oil on canvas painting to her parents on their marriage anniversary. She needs Rs.1200 to buy the equipments. She does not have the money but also does not want to ask her parents for the money as she wanted to surprise them with the gift.

Amrita decides to borrow the money from her friend Ritu who has some money to spare. Amrita offers to repay the amount in 12 monthly installments. Ritu agrees to lend Rs.1200 but says that she will charge some interest.

"How much interest will you charge and how much do I have to pay you every month?", Amrita asks.

Ritu comes up with this calculation.

Principal : Rs.1200

1 year's interest @10% p.a. on Rs.1200 : Rs.120

Total : Rs.1320

EMI : Rs.110

Amrita, being a meticulous person as she is, sets out to work out the interest herself. The following is her worksheet.

Table 1

Month	A	B	C	D	E
	Installment	Principal on which interest is payable	Interest	Principal repaid (A) - (C)	Balance of Principal (B) - (D)
1 00	110.00	1200.00	10.00	109.00	1100.00
2 00	110.00	1100.00	9.17	109.83	999.17
3 00	110.00	999.17	8.33	101.67	897.49
4 00	110.00	897.49	7.48	102.52	794.97
5 00	110.00	794.97	6.62	103.38	691.60
6 00	110.00	691.60	5.76	104.24	587.36
7 00	110.00	587.36	4.90	105.10	482.25
8 00	110.00	482.25	4.03	105.98	376.27
9 00	110.00	376.27	3.14	106.86	270.41
10 00	110.00	270.41	2.26	107.75	161.65
11 00	110.00	161.65	1.35	109.85	53.00
12 00	"	53.00	0.41		

What is EMI?

Should Amrita pay 12 EMIs of Rs.110 each?

Table 2 : Reducing Balance Method

Month	Installment	Installment Repayment			Balance of Principal (B) - (D)
		Principal on which interest is payable	Interest	Principal repaid (A) - (C)	
1	105.50	1200.00	10.00	95.50	1104.50
2	105.50	1104.50	9.20	86.30	1098.20
3	105.50	1098.20	8.40	97.10	911.10
4	105.50	911.10	7.56	97.56	813.20
5	105.50	813.20	6.78	96.78	716.42
6	105.50	716.42	5.95	99.55	616.83
7	105.50	616.83	5.12	100.39	514.55
8	105.50	514.55	4.28	101.21	413.34
9	105.50	413.34	3.44	102.05	311.29
10	105.50	311.29	2.59	102.91	208.38
11	105.50	208.38	1.74	103.76	104.62
12	105.50	104.62	0.87	104.03	0.01

Theory-Wise

EMI (Equated Monthly Installment) is the amount that a borrower should pay every month. So that the principal along with interest gets repaid by the end of the period of the loan.



What is Reducing Balance Method of calculating interest?

Amrita needs to pay only Rs.105.50 per month for 12 months

Plastic Money : Is it the easy option

Amrita is feeling low and starts thinking of other options like credit card. She calls up her uncle.



Amrita: Hello uncle, I told you that I needed some money. Can I not withdraw it from the credit card that my father has given me?

How do you make a purchase using the credit card?

Step 1: You give the card to the shopkeeper

Step 2: The shopkeeper generates a charge-slip in duplicate - the merchant copy and a customer copy.

Step 3: You sign the merchant copy and give it to the shopkeeper and keep the customer copy with you and take back your credit card

Do you think it is wise for Amrita to borrow money through credit card and pay the minimum amount due?

Amrita's uncle also told her the same thing. He also provided some interesting information.

If you chose to pay only the minimum amount due it would take you _____ to pay back any amount in full.

And in such case you will end up paying almost _____ towards interest alone for the Rs.1200 borrowed by you.

So you would have to pay a total amount of over _____ in all in repayment of the Rs.1200 borrowed by you.

Advantages of credit cards

1. _____
2. _____
3. _____

Precautions to be taken with regard to credit cards

1. Sign in the signature panel on your credit card as soon as you receive it.
2. Maintain utmost secrecy with regard to your PIN (personal identification number). You get the PIN from the bank through a mailer. Change the Pin as soon as possible and discard the PIN mailer soon after. To access the bank's ATM you have to use this PIN.
3. Make sure that your credit card is returned to you immediately after completing a purchase and do not allow it to be taken out of your sight.
4. Check receipts against your monthly billing statements to verify your card transactions. Report any unauthorized transaction(s) immediately.

- 
- Keep a list of all your card numbers and make sure they're in a secure place.

PANORAMA OF BANK LOANS

Subrata: I am a photographer. I do not have a fixed monthly income. In some months I earn as high as Rs.80000 and in some months I have no earnings. I want to buy a house costing Rs.25 lakhs. I want to take a **Housing Loan** from the bank.

Will Subrata get a Home/Housing Loan from the bank?

Answer: _____

Rule No.1: _____

Anuja: I earn Rs.25000 per month but I am the only earning member in the joint family of 13 members. My entire income goes towards meeting the household expenses. I want a bank loan- **Personal Loan** to meet the expenses of my daughter's marriage.

Will Anuja get a personal loan from the bank?

Answer: _____

Rule No.2: _____

Kaushik: I was a call centre employee and had taken a **Car Loan** three year back, I left the job a year back since I fell sick and after that I could not pay the monthly installments of my car loan. Now I need a loan for starting a company of my own.

Will Kaushik get the loan from the bank?

Answer: _____

Rule No.3: _____

Kamlesh: I want to start a horse breeding ranch which will

cost me Rs.1 crore. I am high net worth individual and have an excellent credit history.

Will the bank give Kamlesh the loan of Rs.1 crore?

Answer: _____

Rule No.4: _____

Kamlesh (continued): I will pay Rs.15 Lakhs as margin money but do I pay interest on Rs. 1 crore or Rs.85 Lakhs?

Answer (Rule No.5): _____

Sanjay: I want to buy a Penthouse for Rs.2 crores in Cambala Hill. If I take a housing loan, from a bank will the original documents (sale/lease deed) of the house be with me or with the bank?

Answer (Rule No.6): _____

Jaya: I have decided to take an educational loan of Rs.5 Lakhs how do I decide the amount of the installment (EMI-Equated Monthly Installment) to be paid every month.

Answer (Rule No.7): _____

Bandy: I am crazy about bikes and want to buy RX 100 that is priced around Rs.100000. I plan to take a loan from the bank for the entire amount. If the bank agrees to give me the loan, will the bank deposit the loan amount in my bank account or will they give it to me in cash.

Answer(Rule No.8): _____

Types of loans

- **Vehicle Loan**
- **Consumer Loan**

- 
- Personal Loan
 - Education Loan
 - Housing/Home Loan

Theory-Wise

Parameters for taking bank loan and calculating EMI:

- Amount of loan
- Loan Period
- Rate of Interest

Refer to the Money Maxims booklet in your study kit (as Homework) for more information on these loans

How much should you borrow? The 70-20-10 Rule

What is 70-20-10 Rule?

SMART PREVIEW

In your next class you will apply all your learnings in a real life situation and look at the scope of earning while learning.

SESSION 8

THE FINAL COUNTDOWN



MY LAST DEPOSIT

- Borrowing should be need-based not want based.
- There is a cost attached to Borrowing which is called interest.
- Concept of Equated Monthly Installment
- Credit cards - its advantages and precautions
- General guiding principles of taking bank loans.
- The 70 - 20 - 10 - rule



QRIOSITY

Read the following statements and mark whether they are true or false:

1. If a person borrows Rs. 10000 at the rate of 15% for one year, his EMI works out to be Rs. 958.
2. One can reap tax benefit from all forms of investment.
3. If a person invests Rs. 10000 for 8 years at the rate of 8% compounded annually, the initial amount will be doubled.
4. A person wants to buy a cell phone worth Rs. 15000. It would be better for him to pay for it over a year using a credit card which charges an interest of 3% rather than taking a personal loan at the rate of 12% for a year.
5. EMI stands for Equated Monthly Investment.
6. It is possible for us to have a share in the profits of many big companies in India.
7. One can open a bank account even if one does not have a ration card.
8. One can keep one's savings in a post office.
9. A person below 18 years of age can apply for a loan from a bank.
10. When you save money, it grows.

$$\text{My FIQ} = \frac{\text{number of rights}}{10} = \frac{1}{10}$$

QUEST FOR THE COMPUTER

Meet Sunny



Age: 15 years

Loves: Creating Computer Games

Dream: Start a gaming company and be rich

Hates: His current computer which is slow

Friends love him for: Repairing their computers

Cost of his dream machine: Rs.35,000

Time deadline: 9 months

Sunny's SMART goal:

Sunny's Income-Expenditure:

Sunny's parents give him Rs. 250 per week as his pocket money. Last month Sunny spent his money on the following items: Canteen bill: Rs. 400, Movie: 150, Computer Game: 150, Restaurant: 150, Auto: 600, Mobile bill: 750. Stationary: 50. His mother gave him Rs. 500 without telling his father and told him that this cannot happen every time. The mobile bill was paid by his father directly. Sunny figured out that his parents had spent Rs.6,000 on clothes for him during the last year.

Sunny's Need/Want Analysis and Savings Plan:

Table 1

Areas	Amount spent	Need/want	Planned expenditure
Canteen			
Auto			
Movie			
Restaurant			
Computer game			
Stationery			
Total			
Mobile			
Clothes			
Total			

How much can Sunny save?

Table 2

Area of saving	Amount saved per month	Savings at the end of 9 months
Pocket Money		
Mobile bill		
Clothes		
TOTAL		
Sunny Requires		35,000
Still to go		

Sunny Realizes:

- His parents had spent Rs. 5000 on his last birthday, 25th February. This year due to the pre-board exams, he will not be able to celebrate his birthday as his friends too would be busy studying.

- Once he buys the new computer, he would not need the old computer. His next door friend has already offered Rs.5,725 for his old computer which is only one year old.

Table 3

Area	Amount saved finally
Pocket money	
Mobile bill	
Clothes	
Savings from birthday expenses	
Sale of old computer	
Total money gathered	
Still to go	

Suggestion for Sunny:

Story so far:

Table 4

Area	Amount
Money gathered so far	
Sunny's earnings for 9 months	
Total money available now	
Still to go	

What should he do?

Should he give up his goal? _____

Should he find ways to achieve it? _____



What do you think is the solution to his problem? Can he borrow this money from someone.

Will a bank lend him money? Why?

Who can lend money to Sunny?

How will Sunny get a loan?

How will Sunny repay the loan?

From where will Sunny get the best deal? How?

How much will Sunny have to repay?

Plan for repayment of Sunny's loan:

Sunny's father insists that Sunny pay him some money every month so that the loan can be repaid gradually. How much should Sunny pay his father each month?

What happens if Sunny pays a monthly installment of Rs. 1237?

Table 5

Sunny pays a monthly installment of Rs.1237.

Principal	13250				
Installment	1237				
Int. rate	12				
Installment adjustment					
Month	Installment	Principal on which interest is payable	Interest	Principal repaid (1) - (3)	Balance of Principal (2) - (4)
	-1	-2	-3	-4	-5
1	1237	13250	132.5	1104.5	12145.5
2	1237	12145.5	121.46	1115.55	11029.96
3	1237	11029.96	110.3	1126.7	9903.25
4	1237	9903.25	99.03	1137.97	8765.29
5	1237	8765.29	87.65	1149.35	7615.94
6	1237	7615.94	76.16	1160.84	6455.1
7	1237	6455.1	64.55	1172.45	5282.65
8	1237	5282.65	52.83	1184.17	4098.48
9	1237	4098.48	40.98	1196.02	2902.46
10	1237	2902.46	29.02	1207.98	1694.49
11	1237	1694.49	16.94	1220.06	474.43
12	1237	474.43	4.74	1232.26	-757.82



What can you say from the above table?

Correct EMI to be paid by Sunny:

Sunny's father tells him something very encouraging. Sunny actually does not have to pay EMI of Rs.1237 but it should actually be Rs.1177. There is actually a lengthy formula which will give you a correct EMI amount of Rs.1177. However it is not required for you to learn this formula at this stage. Let us see what happens if Sunny pays an EMI of Rs. 1177.

Table 6

Principal	13250				
Installment	1177				
Interest rate	12				
Installment adjustment					
Month	(A) Installment	(B) Principal on which interest is payable	(C) Interest	(D) Principal repaid (A) - (C)	E Balance of Principal (B) - (D)
1	1177	13250	132.5	1044.5	12205.5
2	1177	12205.5	122.06	1054.95	11150.56
3	1177	11150.56	111.51	1065.49	10085.06
4	1177	10085.06	100.85	1076.15	9008.91
5	1177	9008.91	90.09	1086.91	7922
6	1177	7922	79.22	1097.78	6824.22
7	1177	6824.22	68.24	1108.76	5715.46
8	1177	5715.46	57.15	1119.85	4595.62
9	1177	4595.62	45.96	1131.04	3464.57
10	1177	3464.57	34.65	1142.35	2322.22
11	1177	2322.22	23.22	1153.78	1168.44
12	1177	1168.44	11.68	1165.32	3.13

The total amount to be repaid to father as calculated without applying reducing balance method: Rs._____

The actual amount that Sunny will have to repay: Rs. _____

SUNNY TAKES A LEAP AHEAD!!!

Sunny is very happy that he will have to pay less. And then his father suggests something even more fantastic. Sunny's father suggests instead of paying an EMI of Rs.1177 for 12 months (1 year), Sunny can pay him an installment of Rs.624 for a period of 24 months (2 years). Sunny can invest the remaining part of his savings which is approximately Rs.500 per month in a very interesting "investment plan". Sunny will actually stand to gain more

Father tells Sunny "I learnt about these wonderful investment plans much later in life. I decided to save Rs. 1000 every month at the age of 35 at an interest of 12%. Do you know how much that money has grown now that I am 45 years old?"

Rs. 2,30,039

Table 7

	Amount invested/ month (Rs)	Period	Rate of interest	Total amount
Sunny's dad	1000	10 years	12%	2,30,039
Sunny	500	30yrs	12%	20,98,766
	500	20yrs	12%	

Now Sunny has learnt everything about Systematic Investment Plans in his PocketMoney course. If Sunny invests Rs. 500 (from his savings or earnings), till the age of 25 and then invests an additional Rs. 500 when he starts working, how much money do you think Sunny will have when he turns 45? Rs.20,98,766!!!!!!!!!! So now we have seen the advantages of investing early and staying invested for a long time.



Will Sunny be able to repay his loan and save Rs. 500 simultaneously? (Use the table below to answer the question)

Sunny's repayment capacity:

Table 8

Area	Amount per month
Sunny's earning from his computer business	750
Savings from his pocket money	125
Savings from cell phone bill	250
Savings from clothes	100
TOTAL	1225

INCREASING YOUR POWER TO SAVE AND YOUR POWER TO BORROW

What is the way to increase your power to save and your power to borrow? What enables a person to earn?

Write down three skill sets you think you have which will enable you to earn

1. _____
2. _____
3. _____

1-2-3 to Financial Success

1. _____
2. _____
3. _____

NET BENEFITS

A sample list of useful web resources has been given below. You may visit these or other sites at your convenience for more information on Personal Finance issues:

1. There are websites that provide news and information about the performance of various investment instruments like shares, mutual funds etc. Some of these also enable you to maintain an online portfolio which is an online record of your investments and where you can regularly review the performance of your investments. Some also offer e-calculators that will help you to actually see how much you will be able to benefit from a particular investment under certain assumed situations.

These include sites such as:

- www.bloombergutv.com
 - www.business-standard.com
 - www.economictimes.indiatimes.com
 - www.livemint.com
 - www.rediff.com/getahead/money.html
 - www.moneycontrol.com
 - www.myiris.com
-
2. Some sites are focused on one type of investments such as mutual funds. These include the following:
 - www.valueresearchonline.com
 - www.mutualfundsindia.com



3. Market regulators and institutions also maintain websites that will provide you an understanding of the markets and products that these regulators regulate. These include:

- www.sebi.gov.in/ - the official website of the Securities and Exchange Board of India, the regulatory body for our stock market.
- www.rbi.org.in/ - the official website of the Reserve Bank of India, the regulatory body for all the banks in India.
- www.irda.gov.in/ - the official website of the Insurance Regulatory and Development Authority, the regulatory body for insurance.

PARTING SHOT

- You have now studied a lot of concepts related to money, growth of money, savings and investment.
- This knowledge will not only help you now but also help you plan your future in a better way. Even though money cannot buy us everything it certainly makes life worth living by providing all the basic necessities and a secured and comfortable life. Since money is important, it is also important to be careful with it.
- The course has equipped you with the necessary awareness to handle your finances more effectively.
- The aim of the course has been to instill in you the importance of saving a part of your income and reaping the benefits from different forms of investment



FAMILY ACTIVITY SESSIONS

1.	Money Matters: Smart Goals And Financial Analysis.....	105
2.	Budgeting: Balancing The Means And The Ends.....	109
3.	Investment : Nurturing The Money Plant.....	113
4.	Basics Of Banking.....	117
5.	Stalking The Stocks.....	121
6.	Investments : The Wider Spectrum.....	125
7.	Beyond Savings : Borrowing.....	129
8.	The Final Countdown.....	137



SESSION I

MONEY MATTERS: SMART GOALS AND FINANCIAL ANALYSIS



Dear Parents,

Do we involve children in family budgets?

As a family we sit together and talk about a lot of things. E.g. we discuss and plan holidays together- where to go, where to stay, what places to visit, what all to buy before the trip, things to shop for at the holiday destination etc. But all these things would require money, would require an elaborate financial plan/budget. But we normally do not involve our children in this budgeting exercise. Either we have this idea of keeping them 'protected' from financial concerns or we have just made the age-old assumption that finance is the father's/mother's concern! Sometimes we might also feel that our children are too young to understand budgeting.

What is the first step towards making our children financially literate?

We believe that financial literacy begins at home. Financial literacy is not rocket science, but it requires budgeting skills that don't come naturally to many people. You can help us help your child if you sit with him/her to complete these simple exercises. Let them participate in the regular budgeting ac-

tivities and help them understand on what basis you allot a particular amount towards an expense.

In today's session your child learnt:

- ✓ When we want something, it is very important to set a well-defined SMART (Specific, Measurable, Achievable, Realistic, Time-bound) goal and then take all the required efforts to achieve it.
- ✓ Once we track our income and expenditure and do the need vs. want analysis, we can arrive at optimum amount that we can save.
- ✓ In order to check whether our financial goal is achievable or not, we need to know the optimum amount that we can save.

ACTIVITY ONE

The entire family should sit and write down 10 main areas of expenditure in the household and classify them into needs and/or wants. An example has been provided for your reference.

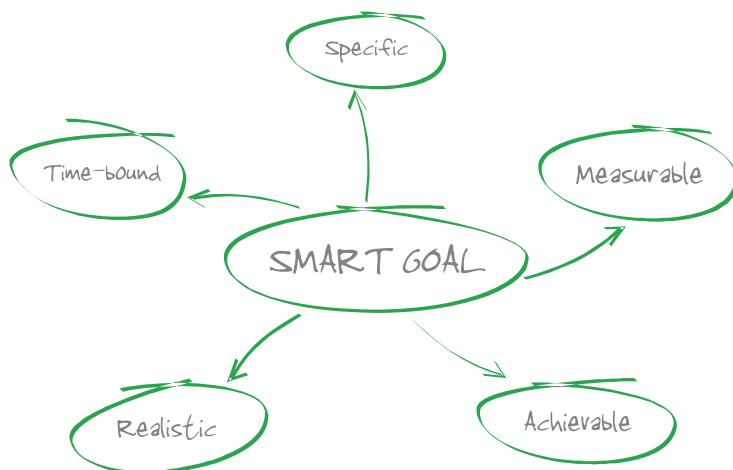
Need: A 2bhk apartment for a 3-member family

Want: A 4bhk penthouse for a 3-member family

Sometimes an item may be classified as both a need and a want, e.g. clothes

Description of the expenditure	Need	Want	N/W

SMART GOAL



Example of a SMART goal:

NOT SO SMART	SMART!
I want to save money to buy a cell phone	I will have to save Rs. 4000 by the end of this year to buy the Nokia 123

ACTIVITY TWO

Now, in the table below, all of you together, list 2 SMART goals of the family along with the other details required.

SMART Goal	Estimated cost	Estimated timeline

ACTIVITY 3

Advantage Maxima!! – The **AdMax** grid for effective decision – making.

STEP 1: Define the Objective

STEP 2: Identify Your Criteria

STEP 3: List the Alternatives

STEP 4: Evaluate Your Alternatives

STEP 5: Make a Decision.

CRITERIA				
ALTERNATIVES				

Suppose your family wants to buy a car. There are some parameters/criteria that you would want in a car, e.g. you might want high mileage, big size etc. list down these criteria and also, list down the options available in the market. Analyzing these options by putting them down in the grid, you can easily make your decision!

CRITERIA	Family size	Mileage	Diesel	Price < 8 lakhs
ALTERNATIVES				
Indigo				
Esteem				
Fabia				
Tata Safari				
Scorpio				

SESSION 2

BUDGETING: BALANCING THE MEANS AND THE ENDS



Dear Parents,

In today's session your child has learnt:

What is a budget?

Budget is a plan for the coordination of resources and expenditures OR a projection of one's earning and expenditure.

Why is drawing a budget necessary?

Budget is necessary in order to:

- ✓ Optimize savings.
- ✓ Ensure that we don't spend more than our means.
- ✓ To save accurately for a particular short/long term goal.
- ✓ To effectively allot funds to various areas of expenditure in advance.

What are 'surplus' and 'deficit' with respect to a budget?

- ✓ Surplus is the amount that remains when a need is satisfied; in other words, when the projected income minus projected expenditure is POSITIVE, it is called a SURPLUS.
- ✓ Deficit is a lack OR an excess of expenditure over revenue; in other words, when the projected income minus projected expenditure is NEGATIVE, it is called a DEFICIT.

What is delayed gratification?

With long-term goals, you must be willing to give up something you want now to get something better/bigger in the future. This is called delayed gratification e.g. curbing domestic expenditure and entertainment in order to buy a car 6 months later or a year later.

What is instant gratification?

To buy something as soon as you feel the need for it is called instant gratification. Look at a shirt on the display in the showcase in a mall and buy it on an impulse.

What is opportunity cost?

Opportunity cost is what you give up every time you make a choice. Resources are limited and wants are endless. There is no way we can have it all. So each choice to buy something is also a choice to give up something.

Why can't my son/daughter learn about budgeting in school?

Most children learn about managing money at home, from their families. We found out that 60% of school children learnt personal finance at home. Parents make a difference when they think of themselves as their child's financial fitness personal trainers!

Why does my child need to learn about budgeting so early in life?

Knowing the art of budgeting helps a person develop economic way of thinking and problem solving. They can use this knowledge in their lives as consumers, savers, responsible members of the family and in future as investors, responsible professionals, citizens and well-equipped participants in the global economy.

How can we participate as a family? How will it help?

You can involve your children in financial decision-making. Let them know how you draw a budget and how do you decide how much money do you allot towards a particular area of expenditure. This will result in the child not only understanding and participating in the family budget but also in becoming more sensitive to the position of the parents when they deny a particular demand of the child. Children will also be able to empathize with their parents in a better way and appreciate the value of hard-work and money.

How can I/we help?

You can encourage your child to participate in the family budget and explain to him/her the allocation of funds. When your child asks for something expensive, rather than giving it away instantly,

encourage him to draw up a budget and try to save at least a part of the amount. This inculcates a financial discipline that is desirable in a responsible family member.

ACTIVITY 1

Discuss amongst the family members and draw a list of 10 items of expenditure where you can exactly predict the amount that you will spend in a month.

Area of expenditure	Amount (Rs)

ACTIVITY 2 - The Deadly Demand Saga

Mr. and Mrs. Grover are worried and wondering how will they meet the demands of the family. They have to buy a silk quilt as a birthday gift for Mr. Grover's father. Sweta, their daughter wants a scooter. Ravi, their son wants a cricket set, Kanta bai, their domestic help has made a demand of Rs.2000/- as advance for her son's marriage. Mrs. Grover wants to go for a vacation and Mr. Grover wants to get their house painted.

Along with the entire family, consider each of these demands in the Grover household and discuss amongst yourselves as to what demands will get a delayed gratification and which

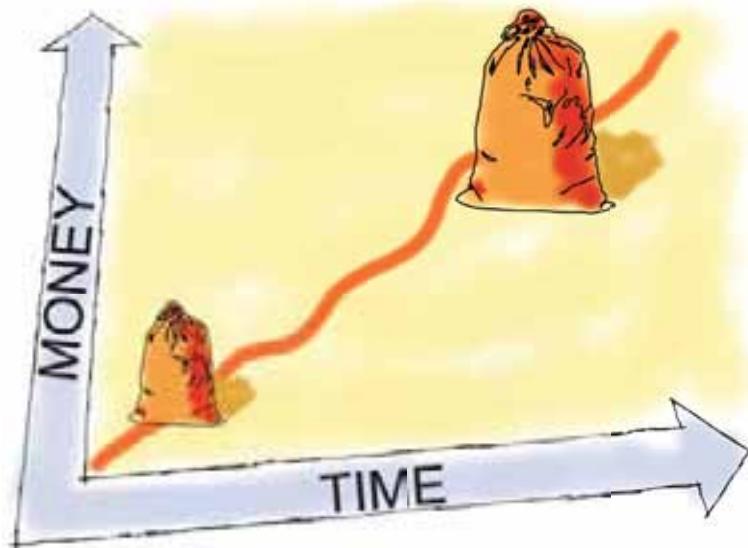


ones instant gratification. Provide the necessary justification. This will help your children understand the parameters that you consider while prioritizing your financial decisions.

Demand	Instant Gratification	Delayed Gratification	Reasons
Mr. Gorvers father's gift			
Shweta's scooter			
Ravi's Cricket set			
Kaanta Bai's advance requirement			
House Painting			
Mom's vacation			

SESSION 3

INVESTMENT : NURTURING THE MONEY PLANT



Dear Parents,

In today's session your child has learnt:

Why is investment necessary?

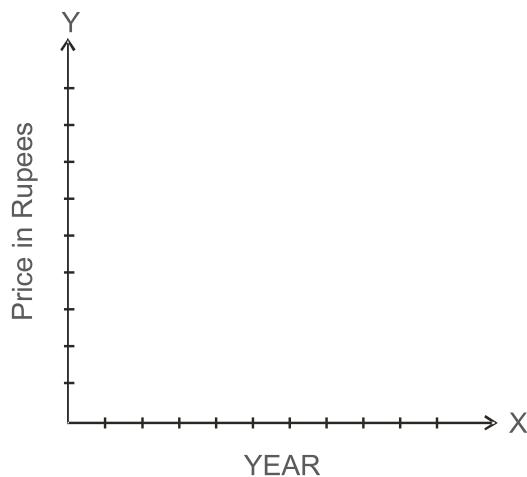
- ✓ Investment helps our money to grow.
- ✓ It provides a cushion against inflation.
- ✓ It provides us a steady source of income in old age.
- ✓ It helps us achieve and maintain a certain standard of living.
- ✓ It is all the more necessary with increasing longevity.
- ✓ It helps us achieve almost all short term and long term financial goals.

ACTIVITY 1:

As a family, jot down the prices of these common household items a few years ago (it could be 5 years back or 10 or even 20 years back). Note them down and then in the adjacent column jot down the current prices of the same items. You will observe that the prices have risen considerably. Discuss with the family whether income has also increased proportionately.

ITEM	OLD PRICE	CURRENT PRICE
LPG Cylinder		
1 litre cooking oil		
1 kg wheat		
1 litre petrol		
1 kg rice		
Cadbury's dairy milk		
1 kg sugar		
1 litre milk		

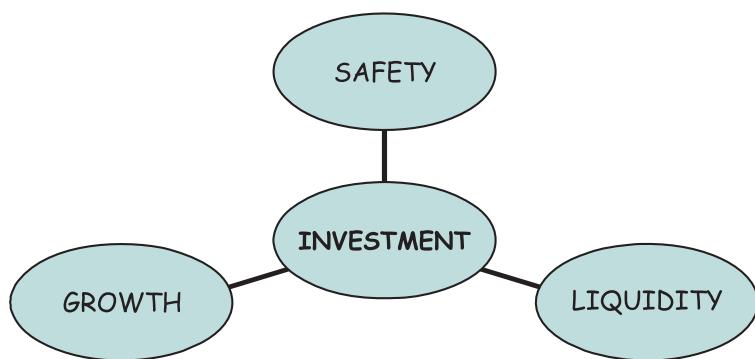
Take any one commodity from the above list and plot the following graph:



INVESTMENT MANTRAS:

- ✓ Money grows with time.
- ✓ Reap the benefits of compounding
- ✓ Start early and stay invested longer
- ✓ Invest consistently

THE HOLY TRINITY OF INVESTMENT



ACTIVITY 2

Discuss with the family as to what your general concerns are before you invest in a particular option.

1. _____
2. _____
3. _____
4. _____
5. _____

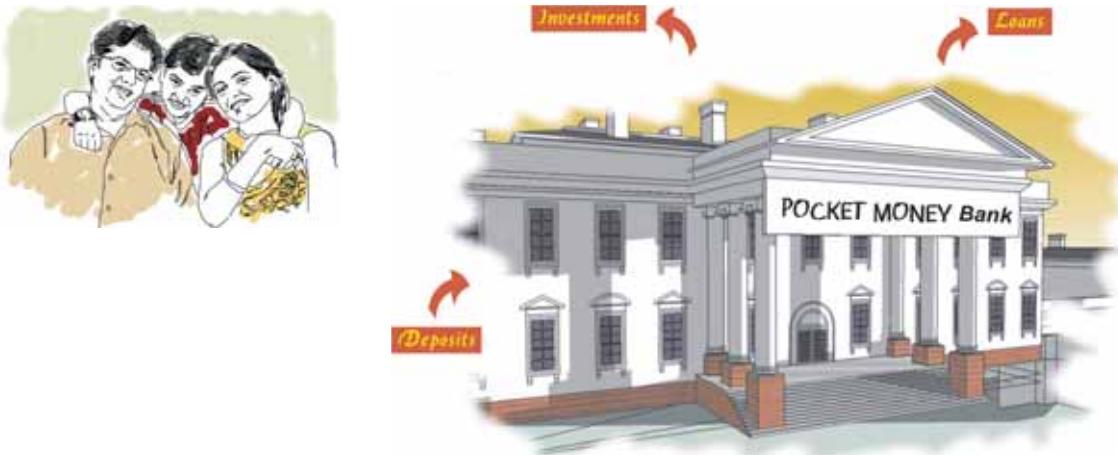
ACTIVITY 3

List any 5 investments that has been made by the family and discuss those with respect to liquidity, safety and growth associated with those investments.

INVESTMENT	SAFETY	LIQUIDITY	GROWTH

SESSION 4

BASICS OF BANKING

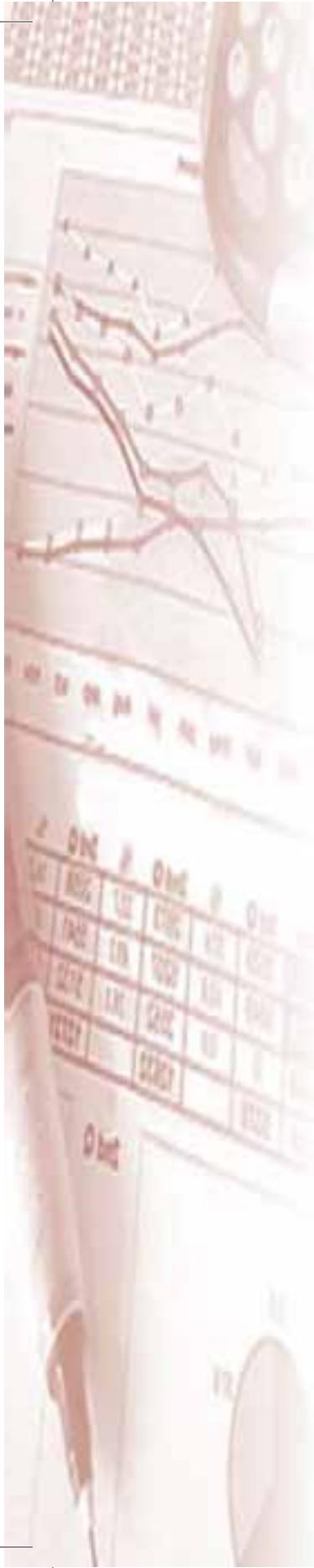


Dear Parents,

In today's world it is almost impossible to survive without a bank account. Consequently, in today's world 'basics of banking' is as essential as 3R's — Reading, Writing and Arithmetic.

In today's session your child met a young boy Chetan who received a crossed account payee check from his grandfather and had to open an account. In the process your child learnt a few things about

- Savings bank accounts
- Opening of bank accounts
- Term deposit accounts
- Cheques
- A few other activities relating to banking



POINTS TO PONDER

1. Do you appreciate that it is necessary for your child to get introduced to banking early in life?
2. How can you contribute in the process of your child getting initiated to banking?
3. Does your child have a bank account? If not, it is desirable that you encourage him to open a bank account as soon as possible.
4. It is desirable that you take your child along, the next time you visit your bank. Show your child the different activities taking place in the bank.

Here are a few recommended activities for your family, intended to involve your child.

ACTIVITY 1

Discuss with your child and record the factors* that influence your choice of a bank or banks.

(*A few examples are: proximity, quality of service, higher interest rates, low service charges, innovative deposit schemes, large number of ATMs / ATMs at convenient locations, speedy realization of clearing/collection cheques)

1

2

3

4

5

ACTIVITY 2

Here is a summary of the banking profile of your family, which we would like you to complete together with your child.

Account details

	Name of the person	Bank / Branch	Type of account	Special features
1				
2				
3				
4				
5				
6				



OTHER SERVICES

	Name of the person	Bank / Branch	Type of service	Special features
1				
2				
3				
4				
5				
6				

ACTIVITY 3

Visit the websites of the banks that you bank with. Explain to your child the services that are available on the net. Do emphasize the importance of the secrecy of the login id and password.

SESSION 5

STALKING THE STOCKS



Dear Parents,

In today's session, your child has been introduced to the basics of stock market operations.

The children have participated in several activities in which they have

- learnt about formation of limited companies
- got a glimpse of company's dividend payment function
- learnt the basic terminologies relating to stock markets
- got to know about the various functionaries in stock markets
- learnt some basic skills for tracking performances of shares

It is possible that you may have investments in shares; it is also possible that you may have once invested in shares, and it is also possible that you may have never invested in shares.

Whatever the case, now that your child has some awareness of investment in shares, we think that it will be interesting and enriching for your child if you share your experience with your child.

JUST SHARE

Here are a few *prod questions* to trigger your thinking and provide you with some basis for your discussion with your child.

1. *Have you invested in shares?*
2. *If no, what are the reasons for keeping away from the stock market?*
3. *If you have invested in shares earlier but have moved away from it, narrate your experience.*
4. *If you have investments in shares,*
 - a) *How do you choose the shares?*
 - b) *Do you avail of services of experts and, if so, who are the experts?*
 - c) *Do you remain invested on long term basis? If so, what is the period of such holding?*
 - d) *What is your primary objectives of investments in shares?*
5. *What is your reasoned view about investments in stocks? What is your advice to your child?*

A SHARED FAMILY ACTIVITY

Whether you invest in stocks or not, here is an activity you can do as a family for your child to gain from it.

Pick up any five shares and track the movements of the closing prices of those five shares over a period of 6 to 8 days. Note the movement of sensex over the same period and note the values of the shares and the sensex in the **table provided on the next page**. Also make a note of the percentage increase or decrease in the values of the stocks as well as the sensex.

Notes:

- (1) Please refer to the 'Let's compare' activity in which your child has participated in today's session
- (2) Daily closing prices of various shares and sensex are available in the finance page of daily news papers.

LOOK IT UP

You, together as a family, may also have a look at the following and similar other websites:

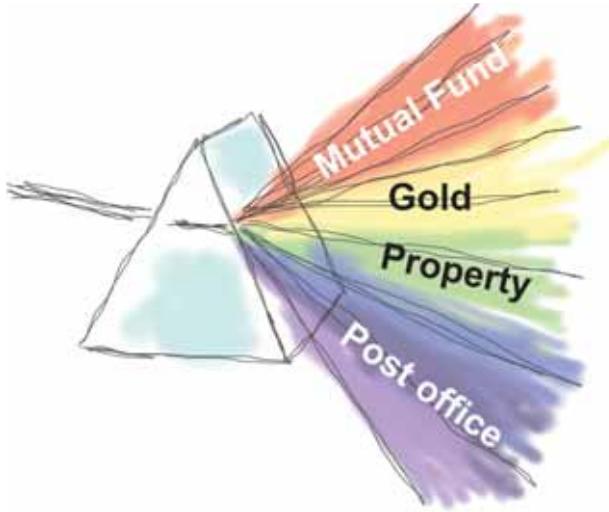
www.nseindia.com
www.sebi.gov.in
www.idbpaisabuilder.com

www.bseindia.com
www.statebankofindia.com
www.rbi.org.in

	Company 1	Company 2	Company 3	Company 4	Company 5	Sensex
Days	% increase/ decrease	% increase/ decrease	% increase/ decrease	% increase/ decrease	% increase/ decrease	% increase/ decrease
1						
2						
3						
4						
5						

SESSION 6

INVESTMENTS : THE WIDER SPECTRUM



Dear Parents,

In two previous sessions your child got introduced to basics of banking and had a glimpse into stock market investment. As you are aware, there are several other ways to invest. Even the concept of mutual fund changes the perspective of stock market investment. In order to show your child the panorama of investment avenues, in today's session your child was introduced to the following.

1. The concept of mutual funds
2. The different types of mutual funds
3. Post Office Small Savings Schemes
4. Public Provident Fund
5. Life Insurance, Real Estate and Gold as avenues for investment
6. Changing investment perspectives at different stages of life

Here are a few points that will help you initiate a discussion with your child with regard to the varying needs of a person at different stages of life that influence the choice of the avenue investment.

1. How the need, perspective, risk taking ability change over the different stages of one's life?
 2. How did your investment outlook or that of other members of your family change over a period of time?
 3. How specific investment plans have helped you meet specific financial needs?

Here are a few recommended activities for your family intended to involve you child.

ACTIVITY 1

Rate the following different types of investments as low, moderate, high from the angle of safety, liquidity and return.

ACTIVITY 2

Here is a table, which when completed will generate the investment profile of your family. We recommend that you discuss the issues involved with your child while completing the table.

ACTIVITY 3

Here is a quiz for you to solve it together.

1. In India, bank deposits are insured up to a certain extent which provides protection in case of failure of banks. — TRUE/FALSE
 2. It is safer to invest in shares of individual companies than in mutual funds. — TRUE/ FALSE
 3. Certain investments are eligible for deduction from taxable income and thereby provide tax benefit. — TRUE/FALSE
 4. Investing in jewelry is a good form of investment. — TRUE/ FALSE

5. You cannot withdraw any money from Public Provident Fund before completion of 15 years. — TRUE/FALSE
6. There is no way to track the value of your mutual fund investments without checking with your mutual fund managers. — TRUE/FALSE
7. Some Insurance companies are allowed to offer pension plans for investment. — TRUE/FALSE
8. Although investing in equity has its own risks, investing in equity mutual funds at regular intervals over a long period reduces the average cost per share or per unit over time. — TRUE/FALSE
9. A balanced mutual fund usually invests in both equity and debt instruments thereby enhancing the safety aspect of the mutual fund. — TRUE/FALSE
10. You can not avail of any tax benefit by investing in mutual funds. — TRUE/ FALSE

Answer Key

- | | |
|----------|-----------|
| 1. TRUE | 6. FALSE |
| 2. FALSE | 7. TRUE |
| 3. TRUE | 8. TRUE |
| 4. FALSE | 9. TRUE |
| 5. FALSE | 10. FALSE |

SESSION 7

BEYOND SAVINGS : BORROWING



Dear Parents,

In the present day economy borrowing is not a dirty word - at least not any more. Gone are the days when it was said that 'A banker is a fellow who lends you his umbrella in fair weather and asks for it back when it begins to rain'. There are circumstances under which borrowing is the wiser option.

While on one hand 'plastic money' has opened up a world of convenience for consumers, it has - in its Credit Card avatar - created the lure of 'easy credit' that has the potential of creating financial ruin if not managed wisely. It has, therefore, become important for young adults and even teenagers to understand this 'double edged sword' in the right perspective.

The aforesaid considerations, necessitated incorporation of a lesson that would look at borrowing beyond savings.

In this session your child got introduced to

- (a) borrowing as a source of finance for asset creation
- (b) interest as cost of borrowing vis-a-vis anticipated benefit
- (c) the concept of Equated Monthly Installment (EMI)
- (d) reducing balance method of interest calculation
- (e) effective use of credit cards and 'plastic money' in general
- (f) different loan facilities provided by commercial banks and

Here are a few family activities suggested to involve your child for a better understanding of the concepts mentioned above.

ACTIVITY 1

A differential study of credit requirement of different members of family

Here are two tables for you to complete.

TABLE 1

Prioritize the various loans/credit facilities and jot down the reasons leading to the order (of priority).

Name of the person	Credit Facility (Mortgage Education/ Home/Car/ Personal/ Consumer durable etc.)	Priority Number (1 for highest priority and so on)	Reasons

Theory-Wise

EMI = Equated Monthly
Installment

TABLE 2

Prioritize the factors that will influence your decision to avail of the loan as also your choice of the bank/ plan. This may be worked out for each member of the family separately.

* such as urgency, repayment period, rate of interest, method of reducing balance - whether daily/monthly etc., processing fee, processing time, security asked etc.

ACTIVITY 2

A few Points to ponder with regard to use of Credit Card

1. Do you use Credit Cards (as distinct from Debit/Cash Cards)?
2. What are the reasons for using or not using Credit Cards?
3. What are the factors (such as number of days interest-free credit available, annual charges, rate of interest for delayed payment etc.) influencing your choice of Credit Cards?
4. For what kind of purchases and/or payment of bills do you use your Credit card?
5. Whether you have ever paid only the minimum amount due and, if so, under what circumstances?
6. Whether you have provided add-on Credit card(s) to any of your family members (including your child) and reasons for providing and/or not providing the same?

Member of family	Whether add on card provided: Yes/No	Reasons



ACTIVITY 3

MINI QUIZ

1. The interest at the rate of 10% per annum for 1 year on Rs.12000 is Rs.1200. Therefore, if the repayment period is 12 months, the EMI for loan will be (choose one)
 - (a) exactly Rs.1100
 - (b) more than Rs.1100
 - (c) less than Rs.1100

2. Which of the following is most beneficial to a borrower?
 - (a) daily reducing balance
 - (b) monthly reducing balance
 - (c) quarterly reducing balance
 - (d) yearly reducing balance

3. You have used your credit card on 20th of last month and you receive a bill dated 5th of this month with due date marked as 22nd of this month. The credit card bill is for the period from 3rd of last month to 2nd of this month. If you pay the entire amount of the bill by 22nd of this month (which is the due date), you will be charged interest
 - (a) from 20th of last month till 22nd of this month
 - (b) from 20th of last month till the date of payment of the bill
 - (c) from 2nd of this month till 22nd of this month
 - (d) from 2nd of this month till the date of payment of the bill
 - (e) no interest as you pay the entire amount by the due date i.e. 22nd of this month

- 
4. You have used your credit card and on receipt of the credit card bill for Rs.10,000, you find that the minimum amount due is Rs.500. You decide to pay Rs.9,000. Which of the following is likely to be the rate of interest at which the bank will charge you interest on the balance amount of Rs.1000 remaining unpaid?
- (a) 3% per annum
(b) 12% per annum
(c) 3% per month
(d) 12% per month
(e) nil, as you have paid the minimum amount due
5. Approximately how many years will it take to pay back the total amount of a credit card bill if on receipt of a credit card bill, you decide to pay only the minimum amount due every month and do not make any further purchases or make any payment using that card?
- (a) 1 year
(b) 2 years
(c) 4 years
(d) 6 years

Answers to the mini quiz

- | | | |
|--------|--------|--------|
| 1. (c) | 2. (a) | 3. (e) |
| 4. (c) | 5. (d) | |



SESSION 8

THE FINAL COUNTDOWN



Dear Parents,

Today was the 8th and the last session of the PocketMoney program. The aim of today's session was to make your child apply all the concepts like saving, budgeting, investment, borrowing and banking that has been taught over a period of 7 sessions. This was achieved through a holistic case study that required the application of all the concepts. The session also discussed ways and means of 'earning while learning' by using and enhancing one's individual skills and talents.

PocketMoney , all through the 8 sessions strived to create a platform where the child can become aware of the basic financial realities and be part of the family's financial well-being. While the course aimed at making your child financially literate and responsible, it however does not expect the child at this stage to be a master in investment or contribute significantly to the earnings of the family.



We sincerely appreciate your active participation in the PocketMoney Program through your involvement in the activities provided in the Family Activity Booklets. The course will achieve its goal only when you sustain the involvement of the child in basic financial decision making of the family. It is also recommended that you browse through some of the websites that have been listed in the course. An useful reference guide for future discussions will be the Money Maxims booklet that has been provided in the PocketMoney course packet. Money Maxims has an exhaustive glossary of all the financial terms that have been taught in the class, useful tips for responsible spending and some tables for developing healthy habits of keeping account of one's income and expenditure.

It has been a pleasure in taking your child through this journey of financial literacy programme and we are sure that it will have a significant impact on the future roadmap of your child.

ACTIVITY 1

The entire family must sit together and discuss in order to complete the following table. Each family member needs to list down 4 areas where he/she can save money, any four investment options that he/she find suitable for his/her needs and whether he/she can do anything to increase his/her income or to start earning.

	Family member 1	Family member 2	Family member 3	Family member 4
Steps to save more:				
Suitable investments				



	Family member 1	Family member 2	Family member 3	Family member 4
Extra earning options?				

ACTIVITY 2

Following are the advertisements for three investment options. After reading the details, discuss with the family the pros and cons of these investment options and with reasons, state whether you would/would not invest in an option. Fill these details in the table provided in the end.

OPTION 1:

Bhavishya Nirman Bonds

- Government of India permitted NABARD to issue this bond which channelized funds for priority areas of agriculture and rural development.
- The Bank, accordingly has launched bonds viz Bhavishya Nirman Bonds with the face value (amount after maturity) of Rs.20,000/- per bond. The issue price is Rs.9750/- per bond.
- Every month the window of these bonds will remain open between 1st and the 20th.
- The tenure of bonds is 10 years; however, investors will have option to sell the bonds, in lots of 50 bonds, in the secondary market, as the bonds will be listed in Bombay Stock Exchange (BSE).
- The Bonds have been rated as AAA by CRISIL and CARE.
- The income acquired on the bonds i.e. the difference between maturity value and the amount of investment, will be treated as a capital gain and will be taxed accordingly.
- No tax will be deducted at source.

- The long-term maturity will allow the investor to plan for long range goals such as paying for children's education /marriage or post retirement requirements, etc.

OPTION 2:

Following are the interest rates available on term deposits in State Bank of India:

Interest Rates (Aug-2008)	
Duration	Interest Rate(% p.a)
15 days to 45 days	4.75
46 days to 90 days	5.25
91 days to 180 days	7.5
181 days to less than 1 year	8.5
1 year to less than 2 years	10
2 years to less than 3 years	9.5
3 year to less than 5 years	9.75
5 years and up to 10 years	9.25

OPTION 3:

SBI Magnum Sector Funds Umbrella - Contra Fund

SCHEME OBJECTIVE

SBI Magnum Sector Funds Umbrella - Contra Fund is an open-ended equity diversified scheme with an investment objective to build a portfolio of stocks which are out of favour in the market.

SCHEME DETAILS

NAV	Rs.41.72
Corpus (in Crs)	Rs.2009.6400
Min. Investment	Rs.2000

PERFORMANCE

From past couple of years the fund has been able to consistently beat its benchmark and category average by a good margin. What makes the fund different is its ability to not only move upwards, but also be able to control the fall during a downturn in the market. In last 2-year and 3-years it has scored 20.75 per cent and 28 per cent compounded annualized return.

Option	Yes	No	Reasons
OPTION 1			
OPTION 2			
OPTION 3			

ACTIVITY 3

A few Points to ponder with regard to earning while learning

1. Whether you will like your child to earn while still in school?
(Choose one)
 - i. Yes
 - ii. Have no objection
 - iii. Not now, but later
 - iv. No, never

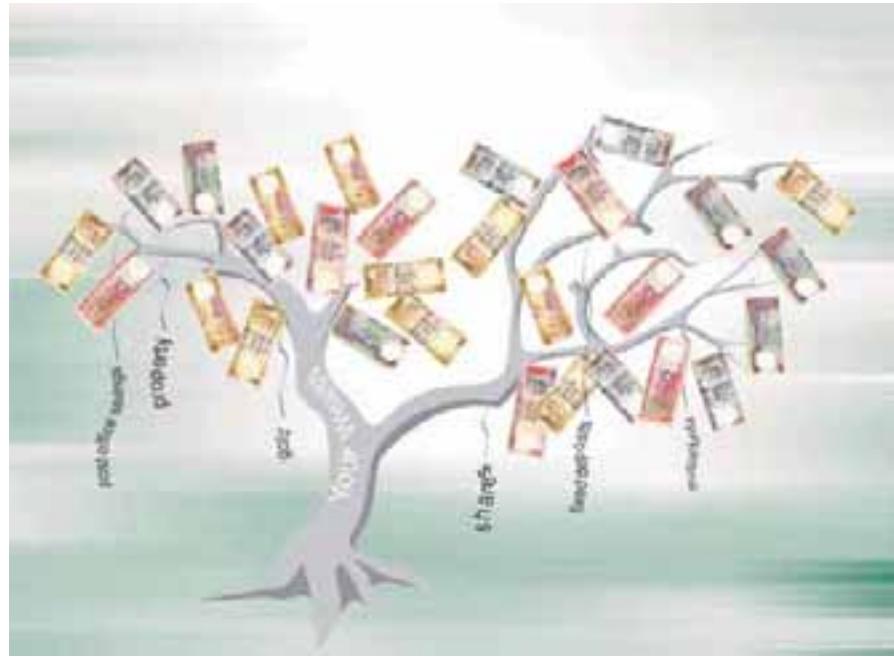
In case your answer to (1) above is (i), (ii), or (iii)

What is the kind of work you would like your child do (keeping in mind your child's are of interest/competence) and why?

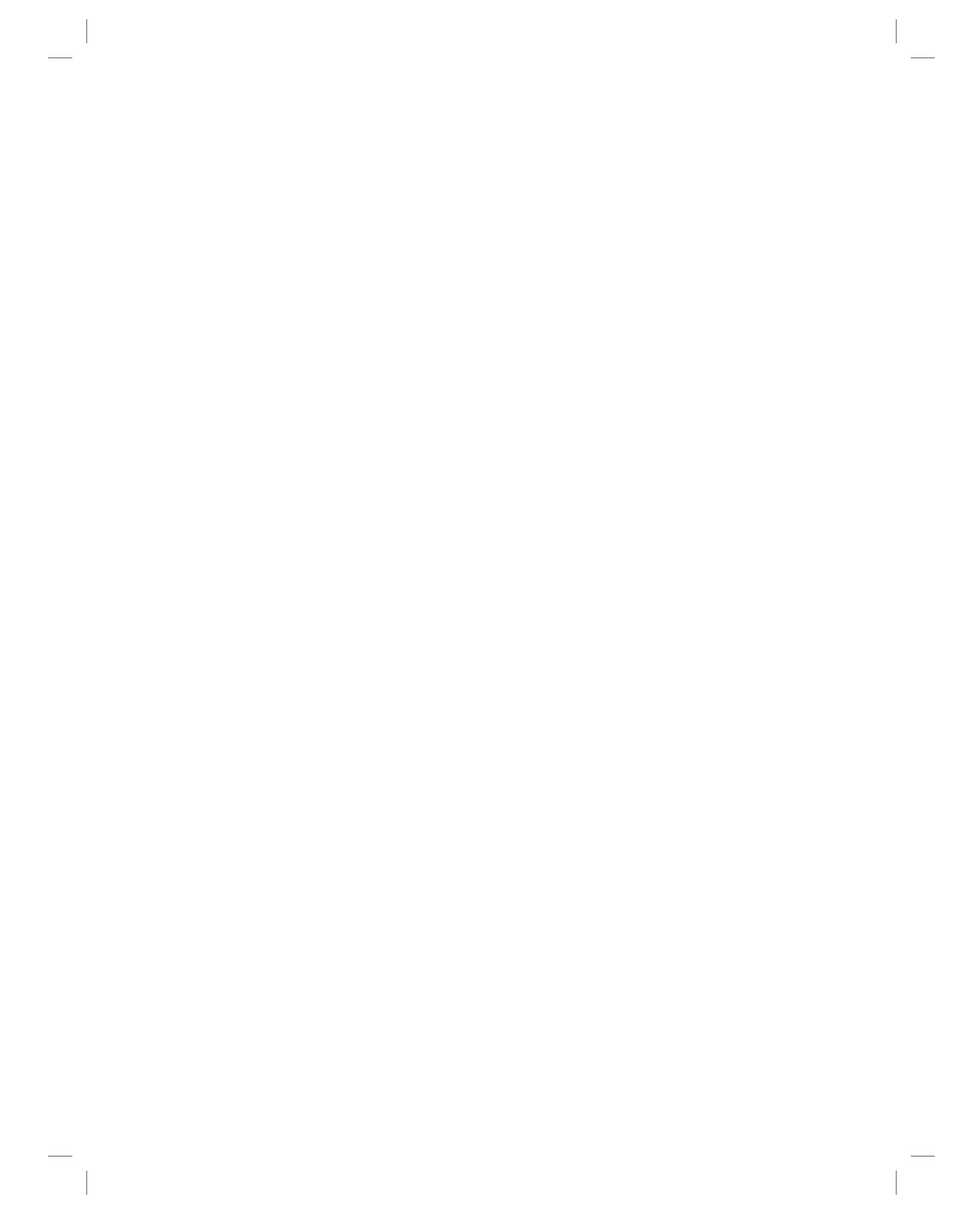
What are the kind of work you will not like your child do and why?

2. How are you disposed to the idea of earning while learning, in general?





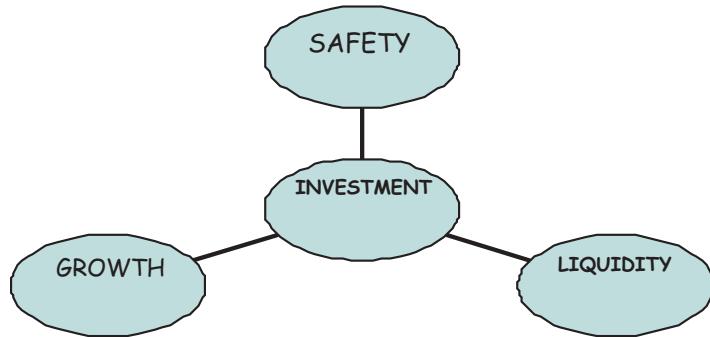
MONEY MAXIMS



Smart Money Fundae

The Holy Trinity of Investment

Safety, Liquidity and Growth are the three major concerns while investing.



RULE OF 72

Roughly, the product of rate of interest and the period of investment should be 72 if you want to double the amount invested. E.g. if you invest any amount for 6 years at the rate of 12%, compounded annually the amount that you have invested will be doubled!

Parameters for taking Bank Loan and calculating EMI

- ☞ Amount of Loan
- ☞ Loan Period
- ☞ Rate of Interest

Smart Money Fundae

As children why should you save money?

- ☞ You can buy gifts for your parents or friends without asking for money from your parents every time.
- ☞ You can save in order to contribute towards things that are yours. E.g. your computer or cell phone
- ☞ If you start saving money regularly from today, you will be able to contribute towards your college education or may be take a foreign holiday!
- ☞ Saving is a habit and the faster it is inculcated the better!

Why do we need to invest our savings?

- ☞ Cushion against inflation:
Prices of all goods are constantly on the rise. A particular amount of money today does not have the same value or worth that it had even a year ago. Saving money today will provide us a cushion against the growing inflation.
- ☞ Shelter on a rainy day:
In moments of emergency like a sudden illness, your savings will help you sail through the emergency without much trouble.
- ☞ Improvement in standard of living:
Saving judiciously and the returns that we get on our investment help us build and maintain a better standard of living. Your house, car, electrical appliances, cell phone, a great vacation...all these things will come from your savings!
- ☞ Source of income for the sunset years:
After retirement, the pension that you get might not be enough to maintain a certain standard of living for you and your family. That is when all the money that you have saved all your life comes in handy.

Smart Money Glossary

- ☞ **Assets:** items that a person owns.
- ☞ **Liabilities:** Items that a person owes
- ☞ **Net-worth** = Assets - Liabilities
- ☞ **Cash-Flow statement:** A simple table that tracks your income and expenditure
- ☞ **Budget:** A financial plan of our expenses keeping our income into consideration.
- ☞ **Surplus:** Surplus is the amount that remains when use or need is satisfied.
- ☞ **Deficit:** Deficit is an excess of expenditure over revenue
- ☞ **Instant Gratification:** When we immediately satisfy a need or a want, it is called instant gratification.
- ☞ **Delayed gratification:** With long-term goals, you must be willing to give up something you want now to get something better/bigger in the future. This is called delayed gratification.
- ☞ **Opportunity cost:** Opportunity cost is what you give up every time you make a choice. Resources are limited and wants are endless. There is no way we can have it all. So each choice to buy something is also a choice to give up.
- ☞ **Needs:** These are the things without which you cannot live.
- ☞ **Wants:** These are the things that make your life better
- ☞ **Banking:** "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by check, draft, order or otherwise; -- Banking Regulation Act
- ☞ **Cheque:** 'A cheque is an instrument in writing containing an unconditional order, signed by the maker, directing a specified banker to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.' -- Negotiable Instrument Act
- ☞ **Income:** Money that is gained or earned
- ☞ **Expenses:** Expenses is what you spend on your need and wants

Smart Money Fundae

Requirements for opening a savings account

- (1) Proof of identity and proof of address of the person wanting to open an account.
- (2) Introduction of the person from an existing account holder. In case of account of a minor, it is usually the introduction by the guardian.
- (3) Photographs (usually two) of the person(s) for identification.
- (4) PAN number/s (issued by Income Tax Dept.) of the account holder/s (In the absence of PAN number a customer has to give a declaration in the prescribed format.)

ATM: Automated Teller Machine.

An ATM card can be used to:

- (1) Withdraw cash from the balance available any time of the day
- (2) Deposit cash/check for the credit of the account.
- (3) Find out the balance available in the account.
- (4) Carry out several other transactions* varying from bank to bank.

* such as getting mini-statements of account, paying utility bills etc.

Precautions necessary while using Credit Cards

1. Sign in the signature panel on your credit card as soon as you receive it.
2. Maintain utmost secrecy with regard to your PIN (personal identification number). You get the PIN from the bank through a mailer. Change the PIN as soon as possible and discard the PIN mailer soon after. To access the bank's ATM, you have to use this PIN.
3. Make sure that your credit card is returned to you immediately after completing a purchase and do not allow it to be taken out of your sight.
4. Check receipts against your monthly billing statements to verify your card transactions. Report any unauthorized transaction(s) immediately.
5. Keep a list of all your card numbers and make sure they're in a secure place.

Smart Money Fundae

Just give it a shot!

If you save very small amounts every day, then allot a day in a month on which you can empty your piggy bank into your savings bank account.

Try to search the web for attractive investment schemes for children and young adults. The results might just surprise you...in a nice way.

If your parents give you a fixed allowance for your cell phone bills, cut down on your usage a little bit and save the money in order to achieve your financial goals.

We all must do some chores to offer a hand in the household. But you can suggest your parents to assign a price to some of the chores that you normally don't do and try to earn this price. Your first source of income could be at home!

I too can earn by _____

Identify your skill which you can put to proper use in order to earn some money.

Switch off the lights, fans and other electrical appliances before leaving a room. Use air conditioning only when required. You might be surprised at how much your family will be able to save on electricity bills.

When you go out and spend money, keep all the notes in your pocket and use them to buy stuff but keep the coins in a separate purse. When you get back home, empty the coin purse into your piggy bank. At the end of the month, you might just be pleasantly surprised at the amount in your piggy bank.

Smart Money Glossary

- ☞ **Crossing:** 'Two parallel transverse lines across the face of a cheque is called a 'crossing'. And where a cheque is crossed, the banker on whom it is drawn shall not pay it otherwise than to a banker.' -- Negotiable Instrument Act
- ☞ **Account payee cheque:** 'Where a cheque is marked 'account payee', a banker will credit the amount of the cheque to the account of the payee only.' --Negotiable Instrument Act
- ☞ **Drawer:** The drawer of a cheque is the account holder who issues the cheque. That is who wants to make the payment. The drawer signs the cheque.
- ☞ **Payee:** The payee is one who is to receive the payment.
- ☞ **Drawee Bank and Branch:** Drawee Bank and Branch refers to the bank and branch where the account is maintained and where from the payment is to be made.
- ☞ **Minors' Savings Bank Account:** As per law, a minor, that is a person less than 18 years old, can not enter into a contract. Still, in order to encourage the habit of saving, most of the banks allow minors of more than 10 or 12 years of age (depending upon the bank) to open and operate savings bank accounts in their own name.
- ☞ **Securities and Exchange Board (SEBI):** SEBI is the regulatory authority in India established with statutory powers for
 - (a) protecting the interests of investors in securities
 - (b) promoting the development of the securities market
 - (c) regulating the securities market.
- ☞ **Equity Shares:** Total equity capital of a company is divided into equal units of small denominations, each called an equity share, or simply a share.
- ☞ **Face Value:** The face value of a unit or share is the nominal or stated amount (in Rupees) assigned to it by the issuer.
- ☞ **Dividend:** Dividend is a portion of a company's profits paid to its shareholders.
- ☞ **Market Value:** The market value of a company's share is its current market price per share. In other words, it is the current price at which a share can be sold or bought in the market.

Smart Money Tips

LIFE - SAVER TIPS FOR REMAINING GLUED TO YOUR GOAL!!!

- ☞ Write your SMART goal or take a picture of your goal and put it up on a soft board just above your study table. Call it your vision board! This will help you remain focused.
- ☞ Keep reviewing your plan to avoid straying away from it.
- ☞ Tell your friends about your goal so that they remind you whenever you deviate from your goal/plan.

Mall-functioning

Here are some tips to avoid overspending in malls:

- Draw a list of items that you want to purchase.
- Preferably carry cash rather than cards.
- Carry limited cash. No matter how much cash we take, we end up spending it in malls.
- Beware of impulse buys. Ask yourself whether you really need the thing that has caught your fancy. Remember the T-shirt you never wore or the high-heeled shoes on which you still struggle to keep your balance?

Smart Money Tips

Tips for saving:

- Save before spending: Whenever some money gets into your hands, from a job or your allowance or whatever, take your savings out immediately, before spending any of the money. The beauty of this system is that once you've removed your savings, you're free to spend the rest.
- Negotiate with your parents. This may or may not work for you, but it's worth a shot. See if they'll "match" your savings, in order to encourage good saving habits. That is, if you save Rs. 50 in a month, then suggest your parents that they put an additional Rs. 50 in your bank account as a reward.
- Consider the "opportunity cost" of purchases. Opportunity cost essentially refers to the cost of giving up one alternative in order to get another. If you are thinking of buying a pair of shoes worth Rs. 500, think how much you can gain by investing that amount over a period of 5-10 years. After having considered that if you think you must buy the shoes then by all means, go ahead and buy them.

Smart Money Glossary

- ☞ **EPS:** EPS is the acronym for Earnings Per Share.

$$\text{EPS} = \frac{\text{Net profit available to ordinary shareholders}}{\text{Number of ordinary shares outstanding}}$$

- ☞ **P/E:** P/E ratio refers to the ratio of 'market price per share' to 'EPS'.

$$\text{P/E} = \frac{\text{Market price per share}}{\text{EPS}}$$

- ☞ **Stock Exchange:** A 'stock exchange' is an organization constituted for the purpose of assisting and carrying out buying, selling or otherwise dealing in securities.

- ☞ **Broker:** A broker is an intermediary who executes the buying and selling orders of an investor. A broker, thus, acts as an agent for an investor, the customer, and charges the customer a fee or commission for its services.

Note: In India a broker must be registered with SEBI.

- ☞ **Sensex:** Sensex is the acronym for Sensitivity index. It is the commonly used name for the Bombay Stock Exchange (BSE) Sensitive Index. It is composed of 30 of the largest and most actively traded stocks on the Bombay Stock Exchange (BSE). Thus, it is a statistical measure or an indicator of the performance of stocks in general on the BSE.

Usually, every stock exchange has such a statistical measure called by different names. However, in India, the term SENSEX is often used to refer to the statistical measure or index relating to any stock exchange. In layman's language, 'the SENSEX for NSE is called the Nifty'.

- ☞ **Nifty:** Nifty is the 50-stock index comprised of some of the largest and most liquid stocks traded on the NSE.

- ☞ **Dow Jones or DJIA (Dow Jones Industrial Average)** is the index for the New York Stock Exchange and NASDAQ.

- ☞ **Initial Public Offer (IPO):** An Initial Public Offer (IPO) is the selling of securities such as shares by a financial entity such as a limited company to the public for the first time.

- ☞ **Simple Interest Formula:** $I = \frac{P \times N \times R}{100}$, I = Interest, P= Principal,

R = rate of interest, N = period

- ☞ **Compound Interest Formula:** $A = P \times (1+r)^n$ A = Amount, P= Principal,

R = rate of interest, n = number of periods and $r = \frac{R}{100}$

Smart Money Tips

You can earn too!! Here are some tips...

Be a computer guru: Many people buy computers and have a lot of trouble setting them up and trying to use them. Even if you have an intermediate familiarity with computers, you might offer your services as a local computer consultant. You can set things up, solve problems, answer questions, teach programs, and show people how to send and organize email, upload digital photos, buy something on Amazon.com, use Instant Messaging, and conduct online searches (with Google or other search engines).

Camps: If you look into it early enough, you can line up a job at a summer camp -- you might work with kids, tend the grounds, prepare food, or do any of a number of things.

Tutoring: If you are good at a particular subject you might be able to earn by helping others understand the subject well.

Department stores: A big perk with these jobs is that you often get to enjoy employee discounts and commissions on items you sell.

Be crafty: If you enjoy arts and crafts, you might make jewelry, greeting cards or candles and sell them -- perhaps in the society or colony that you stay in, where you'll have instant access to a familiar customer base.

Serve the elderly: Not only might you find work in a nursing home or retirement community, but you might also serve older people in your neighborhood. Many older people can't get around much. They may welcome your services delivering groceries, running errands, or doing odd jobs around their home.

Smart Money Tips

You can use the following easy-to-make table to maintain a record of your daily, weekly and monthly expenses i.e. to maintain your cash-flow statement.

Track your daily expenses:

Area of expenditure	Amount (Rs.)
Total Income : A	Monday
Total Expenses: B	Date:
Difference: A-B	

Smart Money Glossary

- ☞ **Bull:** The term 'bull', in financial market, refers to an investor who thinks the market will perform well and prices will rise. Thus bulls are optimistic investors who are presently predicting good things for the market, and are attempting to profit from this upward movement.
A 'bull market' is one, where there is optimism and prices are rising. A 'bull run' refers to continuously increasing share prices.
- ☞ **Bear:** The term 'bear', in financial market, refers to an investor who believes that the market is headed downward. Bears attempt to profit from a decline in prices. Bears are generally pessimistic about the state of a given market. Thus, a 'bear market' is one marked by pessimism and falling prices.
Note: Bulls are, thus, the exact opposite of the market's bears.
- ☞ **Bonds:** A Bond is a fixed income (debt) instrument issued for a period (usually of more than one year) with the purpose of raising capital/funds.
- ☞ **Debt instrument:** A Debt instrument is a record of one party (the borrower/debtor) borrowing a certain sum of money from an investor (the lender/creditor) on predetermined terms with regards to rate and periodicity of interest, repayment of principal amount etc.. The date specified for repayment of the principal is called the Maturity Date. In the Indian securities markets, the term 'bond' is used for debt instruments issued by the Central and State governments and public sector organizations.

As bonds are issued by the Central and State governments and public sector organizations, bond are safer instruments for investment, but returns on bonds are also usually less.
- ☞ **Debentures:** A debenture is an unsecured debt instrument issued by a body corporate. Thus, it is a kind of corporate bond.
In the event that the issuer is liquidated, the holder of a debenture becomes a general creditor and, therefore, is less likely than the secured creditors to recover in full. Because of their high risk factor, debentures pay higher rates of interest than secured debt of the same issuer.
In Indian securities market, the term 'debenture' is used for debt instruments issued by private corporate sector.

Smart Money Tips

Track your weekly expenses:

Week of the day	Income (A)	Expenditure
Monday		
Tuesday		
Wednesday		
Thursday		
Friday		
Saturday		
Sunday		
Totals		
Difference A- B		

Smart Money Glossary

- ☞ **Company Fixed Deposits:** These are short-term (six months) to medium-term (three to five years) borrowings by companies at a fixed rate of interest which is payable monthly, quarterly, semi annually or annually. They can also be cumulative fixed deposits where the entire principal along with the interest is paid at the end of the loan period. The rate of interest varies between 6-9% per annum for company FDs. The interest received is after deduction of taxes.
- ☞ **Credit Rating Agency:** A Credit Rating Agency is an independent, specialized organization that rates financial instruments. Most Bonds/Debentures/Company Fixed Deposits are rated by specialized credit rating agencies. Credit rating agencies in India are CRISIL, CARE, ICRA and Fitch. The yield on a bond often varies inversely with its credit (safety) rating. The safer the instrument, usually the lower is the rate of interest offered.
- ☞ **Demat Account:** The term 'demat' is the acronym for dematerialized or dematerialization. A demat account is an account opened by an investor with a Depository Participant (DP) for holding securities owned by the investor.
Dematerializing a security means converting it from physical form to electronic form. These securities in electronic form are held by an organization called Depository. A **depository** is like a bank wherein the deposits are securities (viz. shares, debentures, bonds, government securities, units etc.) in electronic form. There are two depositories in India which provide dematerialization of securities- The National Securities Depository Limited (**NSDL**) and Central Securities Depository Limited (**CSDL**).
A depository does not directly maintain accounts of the investors, but interfaces with its investors through its investors, the Depository Participants, who maintains the accounts of the investors. Thus, if Depositories are Banks, the Depository Participants are like bank branches where investors accounts are maintained.
Over a period of time, SEBI wants to bring all companies and stock exchanges under the purview of 'DEMAT'.

Smart Money Tips

Track your monthly expenses:

Month: January		
Week	Income (A)	Expenditure
Week 1		
Week 2		
Week 3		
Week 4		
Totals		
Difference A- B		

Smart Money Glossary

☞ **Mutual Fund:** A Mutual Fund is a body corporate registered that pools money from individuals/corporate investors and invests the same in a variety of different financial instruments or securities such as equity shares, government securities, bonds, debentures etc.

Mutual funds can thus be considered as financial intermediaries in the investment business that collect funds from the public and invest on behalf of the investors. Mutual funds issue units to the investors.

In India every Mutual Fund must be registered with SEBI (Securities Exchange Board of India)

Advantages of Mutual Fund:

- Small investments
- Spreading Risk
- Professional Fund Management
- Benefit of Long term investment
- Liquidity
- Regulation
- Transparency
- Reasonable charges

☞ **Net Asset Value (NAV):** Net Asset Value of a mutual fund is the aggregate market value of the assets of the fund net of its liabilities. NAV per unit is simply the net value of assets divided by the number of units outstanding.

Buying and selling of the units of a mutual fund take place on the basis of NAV-related prices.

The NAV of a mutual fund are required to be published in newspapers. Movement of the NAV of a fund tells you about the performance of the fund.

☞ **Entry/Exit Load:** Entry/Exit Load is a charge, which the mutual fund collects on entry and/or exit from a fund. A load is levied to cover the up-front cost incurred by the mutual fund for buying/selling securities for the fund.

Note: Some funds do not charge any entry or exit load. These funds are referred to as 'No Load Fund'. Funds usually charge an entry load ranging between 1.00% and 2.00%. Exit loads vary between 0.25% and 2.00%.

☞ **Equity mutual fund (or Growth Fund):** A mutual fund that predominantly invests in equity shares.

Note: Under Growth Plan dividend received and/or return from investment are reinvested giving capital appreciation. Under Dividend Plan the income is distributed among the investors.

Smart Money Tips

Analyze your monthly cash flow and draw a budget on the basis of need/want analysis

Area of expenditure	Amount spent (Rs.)	Need/want	Scope for improvement?	Proposed expenditure
Totals				
Monthly Income: A				
Monthly Expenses: B				
Difference: A-B				
Target Monthly Expenses				
Target Saving				

Smart Money Glossary

- ☞ **Debt Fund:** A mutual fund that predominantly invests in debt instruments.
- ☞ **Balanced Fund:** A mutual fund that invests both in equity and debt instruments for balanced risk and growth.
- ☞ **Tax Saving Fund:** A mutual fund that tax benefits to investors under the Income Tax Act. An example of this type of funds is Equity Linked Savings Scheme (ELSS).
- ☞ **Open-ended Fund:** A mutual fund that is always open for subscription (buying of units) and redemption (selling of units).
- ☞ **Close-ended Fund:** A mutual fund that is open for entry only during the Initial Public Offering (IPO).
Note: The prices of open-ended funds are linked to the daily net asset value (NAV) and, therefore, these funds are more liquid than closed-ended funds, which are generally traded at a discount to NAV.
- ☞ **Systematic Withdrawal Plan (SWP):** A Mutual Fund plan, under which a fixed amount is paid regularly by redemption of required number of units.
- ☞ **Systematic Investment Plan (SIP):** A Mutual Fund plan, under which a fixed amount is invested every month.
An SIP enables even individuals with very small means to put in small amounts - as small as Rs.100 to 500 per month - in mutual funds, instead of a big one time investment.
The major advantages of SIP are
 - Power of compounding: Due to long term investment the effect of compounding is more pronounced.
 - Discipline and convenience: A small amount invested regularly does not pinch much but adds up to big sum. The process is also very convenient as the contribution can be made through ECS* or standing instruction with post dated checks.
 - ECS is a system by which direct debit to your account is effected through banks' clearing system.

Smart Money Tips

Track your savings - You can track your savings with the help of this table. Some examples have been given for your benefit.

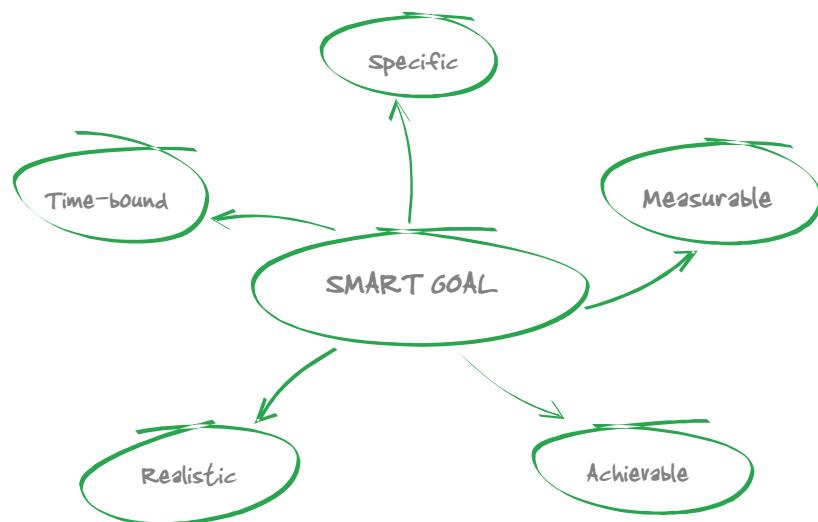
Avenue	Amount	Rate of interest	Period	Amount on maturity
Savings account	400	3.50%	----	-----
At home (piggy bank)	50	-----	-----	-----
SIP	300	12%	9 yrs	-----
Total				

Smart Money Glossary

- ☞ **Pure risk or Term Life Insurance Policy:** An Insurance Policy where the entire premium goes towards insurance (coverage of life risk).
- ☞ **Endowment Life Insurance Policy:** An Insurance Policy where the balance of the premium after providing for life risk cover is invested to create a fund (endowment) and repaid with or without profit (depending on terms of the policy) after the period of insurance.
- ☞ **Whole Life Insurance Policy:** An Insurance Policy where the insured amount with accumulated funds is paid to the heir of the person insured.
- ☞ **Unit Linked Insurance Plan (ULIP):** An Insurance Policy which combines the benefit of Insurance and Mutual fund. It is like an endowment policy where the investment is made in mutual funds.
- ☞ **Pension Plan:** An investment plan, usually offered by insurance companies, under which the premiums paid by the investor are utilized to create a fund from which regular payments are made in form of pension after completion of the term.
- ☞ **Public Provident Fund (PPF):**
 - A long term savings scheme with a maturity of 15 years and interest payable at 8% per annum compounded annually.
 - A PPF account can be opened through a designated bank/ Post Office anytime during the year and is open all through the year for depositing money.
 - Income tax benefit, by way of deduction from taxable income, can be availed for the amount invested and the interest accrued is tax-free.
 - A withdrawal is permitted every year from the seventh financial year from the date of opening of the account.
 - The amount of withdrawal is limited to 50% of the balance at credit at the end of the 4th year immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower less the amount of loan, if any.
 - There is also loan facility available under the scheme.

Smart Money Tips

SMART GOAL



A sample list of useful web resources has been given in student copy pertaining to Session 8. You may visit these or other sites at your convenience for more information on Personal Finance and Investing:

1. There are websites that provide news and information about the performance of various investment instruments like shares, mutual funds etc. Some of these also enable you to maintain an online portfolio which is an online record of your investments and where you can regularly review the performance of your investments. Some also offer e-calculators that will help you to actually see how much you will be able to benefit from a particular investment under certain assumed situations.

These include sites such as:

- www.bloombergutv.com
- www.business-standard.com
- www.economictimes.indiatimes.com
- www.livemint.com

- www.rediff.com/getahead/money.html
 - www.moneycontrol.com
 - www.myiris.com
2. Some sites are focused on one type of investments such as mutual funds. These include the following:
- www.valueresearchonline.com
 - www.mutualfundsindia.com
3. Market regulators and institutions also maintain websites that will provide you an understanding of the markets and products that these regulators regulate. These include:
- www.sebi.gov.in/ - the official website of the Securities and Exchange Board of India, the regulatory body for our stock market.
 - www.rbi.org.in/ - the official website of the Reserve Bank of India, the regulatory body for all the banks in India.
 - www.irda.gov.in/ - the official website of the Insurance Regulatory and Development Authority, the regulatory body for insurance.

Smart Money Glossary

- ☞ **Kisan Vikas Patra:** A Post Office Small Savings Deposit Scheme where the deposit doubles in 8 years 7 months earning interest at 8.41% p.a.
- ☞ **National Savings Certificate:** A six year Post Office Small Savings Deposit Scheme earning interest at 8% p.a. The amount invested is also eligible for deduction from taxable income within limits.
- ☞ **Post Office Monthly Income Scheme:** A six year Post Office Small Savings Deposit Scheme where interest is paid monthly @8% p.a.
- ☞ **Senior Citizens Deposit Scheme:** A five year Post Office Small Savings Deposit Scheme for citizens who are more than 60 years old. Interest is paid at the rate of 9% per annum.
- ☞ **Equated Monthly Installment (EMI):** Equated Monthly Installment is the amount a borrower has to pay every month so that the principal along with interest gets repaid by the end of the period of the loan.
- ☞ **Reducing Balance Method:** Reducing balance method refers to the method of charging interest on a loan account, according to which, as the loan gets repaid, interest is calculated on the 'reduced balance' - that is the amount of loan that remains to be paid at the end of every day/month/quarter/half-year/year (as the case may be) after accounting for every credit to the account by way of repayment of installments or otherwise.

 **Credit Card Terms:**

1. **Total Amount Due:** This is the total amount of Money that remains to be paid by the credit card holder
2. **Payment Due Date:** This is the date by which atleast the minimum amount due should be paid back.
3. **Credit Limit:** This is the total amount of credit that you can avail of using the credit card. You will be charged a penalty if you exceed the credit limit.
4. **Minimum Amount Due:** Minimum Amount Due is normally 5% of the Total Amount Due. One can choose to pay the Total Amount Due or the Minimum Amount Due on the Payment Due Date.
5. **Available Credit Limit:** If you have already used a part of the total credit limit then the remaining credit available is shown in the 'Available Credit Limit'.
6. **Available Cash Limit:** Every Credit Card has an Available Case limit that can be withdrawn from the ATM.
7. **Statement Period:** The Credit Card shows all the transactions that had happened between a particular time period, is which is usually a period of 30 days.
8. **Purchases and Other charges:** this is the detail of the purchases within the statement period and also includes that interest (if any) that has been charged on the outstanding amount.

Various Types of Bank Loans

Vehicle Loans:

1. You can get a bank loan for purchase of a new or even an old vehicle.
2. The vehicle you buy is the security for the loan and this is noted on the RC (Registration Certificate) Book as well as in the records of the Regional Transport Authority.
3. The bank usually asks for 10 to 25% of the cost of the vehicle as margin.
4. The maximum repayment period is usually 7 years.
5. If you want to buy an old car the bank charges higher rate of interest, insists on higher margin, and gives credit for a shorter period.

Consumer Loans:

1. If you want a loans for buying consumer durable such as Refrigerator, Television etc. the loan is called a consumer loan.
2. The maximum repayment period is usually 3 years.
3. The margin requirement is around 10 to 25% of the article purchased.

Personal Loans:

1. If instead of buying any particular object, you want a loan for spending, say, for the purpose of going on a pleasure-trip, there will be no security created out of the loan amount. In such cases the loan is called a Personal loan.
2. The amount of the loan will be determined on the basis of your regular income and your repaying capacity.
3. Since there is no specific security for the loan, the loan is often called a clean loan and the rate of interest is usually higher than that in the case of secured loans.

Education Loans:

1. You can take a loan to meet your educational expenses. Such a loan usually covers the fees and also, at times, your living expenses such as hostel charges.
2. You can take a loan for studying in India or studying abroad.

3. Banks are guided by Reserve Bank of India's directives and do not ask for additional security if the loan amount does not exceed a certain limit.
4. Often the repayment of the loan is scheduled in such a way that you can start repaying it after you start earning after completion of your studies.

Housing Loan or Home Loan:

1. You can avail of a loan for constructing a house or buying a ready house or flat.
2. A bank normally asks for 0 to 20% down payment or margin.
3. Usually you have to deposit with the bank the title deed (such as the sale deed) of the property as security.
4. The repayment period is usually long and depends on your repaying capacity as well as the number of years you are likely to be earning regular income.
5. Since the repayment period is usually long it has a great impact on the amount of interest you pay. It is also important to find out the manner in which the bank or Housing Finance Company is charging the interest. For example are they reducing the balance every day or every month or every year - the effective interest will go up in that order.
6. A housing loan borrower is eligible for certain tax-benefits under the Income Tax Act.

POCKET MONEY

Financial Lessons for Life

SEBI and NISM's Pocket Money program for school students is aimed at helping students understand the concepts of Saving, Financial Planning and Investing.

The 8 Modules of the program cover topics like:

- 1) Saving and Financial Planning
- 2) Budgeting: Needs Vs. Wants | Income and Expenditure
- 3) Why Invest
- 4) Basics of Banking
- 5) Terminology of the Markets
- 6) Options for Investing: Pros and Cons
- 7) Borrowing Money: Benefits and Hazards
- 8) Case Studies: Practical Examples, Lessons and Tips



ISBN: 987-81-909089-1-7