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FINANCIAL LITERACY

CLASSES: VI-VIII

Money Matters

Money:

It is something which act as a medium of exchange in transactions. Money is anything which is accepted by the people in exchange of goods and services or in repayment of debts.

Functions of Money:

Functions of money are divided into two main parts:

Primary Function Secondary Function

Primary Function: Theses functions are of prime importance. It includes two functions such as Medium of exchange and Measure of value.

1. **Medium of exchange:** Money came into use to remove the inconveniences of barter system especially the problem of lack of double coincidence. It has separated the act of purchase and sale. People exchange goods and services through the medium of money. Money by itself has no utility, it works only as intermediary.
2. **Measurement of value or Unit of value:** Money measures the value of various goods and services which are produced in an economy. Money act as a common unit of a measure of value. Values of all goods and services can be expressed in a single common unit called money.

3.

Secondary Function: These functions are derived from primary functions.

1. **Store of value:** Money can be stored for use in future. People can store surplus money and use it whenever they want. People hold money because it can be easily converted into other things. People generally keep a part of their wealth in the form of money because saving in terms of goods is very difficult.
2. **Standard of deferred payment:** Deferred payment are payments which are contracted to be made sometime in future. Debts and loans are taken and are repaid in terms of money. The use of money as standard of deferred and delayed payment immensely simplifies borrowing and lending operation. Money is the link which connects the values of today with those of the future. It is possible because value of money is stable and it has general acceptability and durability.

3.

Difference between Money and Wealth:

Wealth is a measure of all the goods and services produced by an economy. Such as: Cars, Buildings, Furniture, food items etc. It also includes any services anybody was willing to hire. Such as: Medical, Education etc. The wealth is created when people start trading that money with each other in exchange for more goods and services.

Money is a tool which we use to exchange those goods and services. Giving everyone more money doesn't necessarily result in everyone getting more wealth. So money changing hands can create wealth, but the act of having money doesn't do it.

Creating wealth should always be the goal, and money should be seen as nothing but a tool used to achieve that goal.

Difference between Assets and Liabilities:

Assets: An asset is an economic resource. Anything tangible or intangible that can be owned to produce value and that is held to have positive economic value. It represents value of ownership that can be converted into cash.

Liability: In accounting term, it describes an obligation to pay to others for goods and services acquired on credit. It refers to debt that has yet to be paid or products or services that have been paid for but have not yet been rendered.

ASSETS= CAPITAL + LIABILITIES

Net worth: It is the total assets minus total outside liabilities of an individual or a company. Net worth is used when talking about the value of a company or in personal finance for an individual's net economic position.

Personal financial planning is the process of managing your money to achieve personal economic satisfaction. This planning process allows you to control your financial situation. Every person, family, or household has a unique financial position, and any financial activity therefore must also be carefully planned to meet specific needs and goals.

S.M.A.R.T GOALS:

Your financial goals should take a **S-M-A-R-T** approach i.e. goals should be SMART -

S - *specific,* so you know exactly what your goals are so you can create a plan designed to achieve those objectives.

M- *measurable* with a specific amount. For example, "Accumulate Rs. 5,000 in an investment fund within three years" is more measurable than "Put money into an Investment fund."

A - achievable No one has ever built a billion dollar business over night. Dream big and aim for the stars but keep one foot firmly based in reality.

R - *realistic,* involving goals based on your income and life situation. For example, it is probably not realistic to expect to buy a new car each year if you are a full-time student.

T - *time-based,* indicating a time frame for achieving the goal, such as three years. This allows you to measure your progress toward your financial goals.