

## 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.

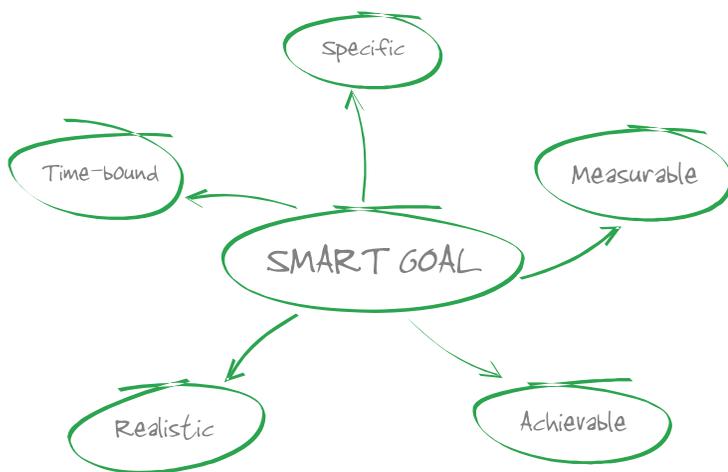
Need: A 2bhk apartment for a 3-member family

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.

<b>Demand</b>	<b>Instant Gratification</b>	<b>Delayed Gratification</b>	<b>Reasons</b>
Mr. Govers 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?

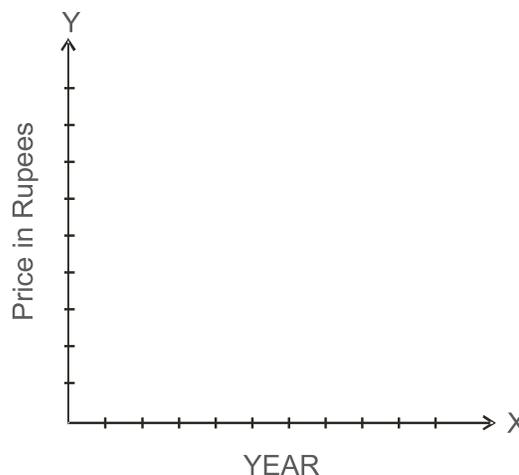
- ✓ Investment helps our money to grow.
- ✓ It provides a cushion against inflation.
- ✓ It provides us a steady source of income in old age.
- ✓ It helps us achieve and maintain a certain standard of living.
- ✓ It is all the more necessary with increasing longevity.
- ✓ It helps us achieve almost all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

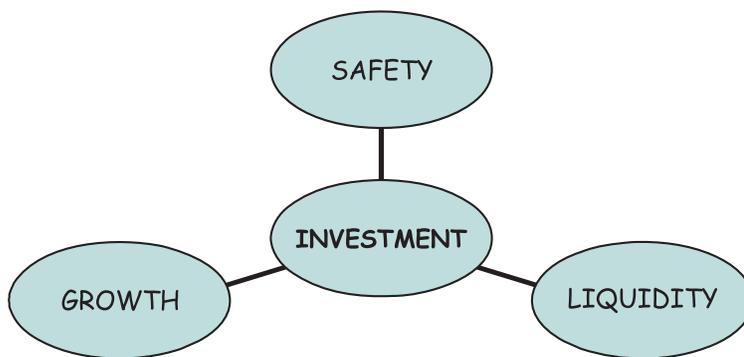
Take any one commodity from the above list and plot the following graph:



## 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. \_\_\_\_\_





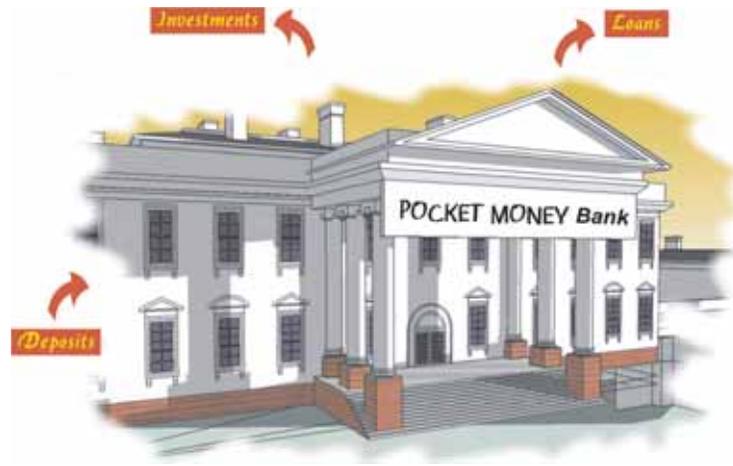
### ACTIVITY 3

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

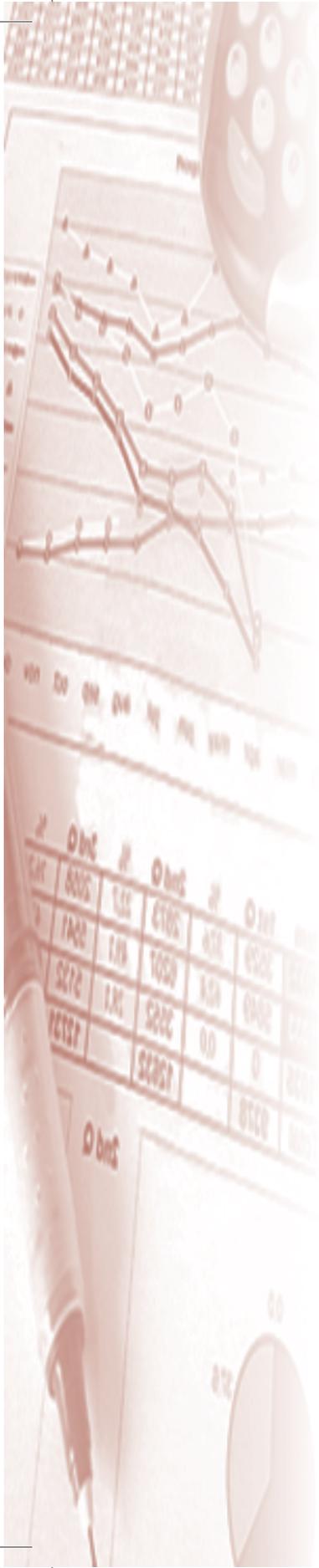


*Dear Parents,*

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 grand father 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](http://www.nseindia.com)  
[www.sebi.gov.in](http://www.sebi.gov.in)  
[www.idbipaisabuilder.com](http://www.idbipaisabuilder.com)

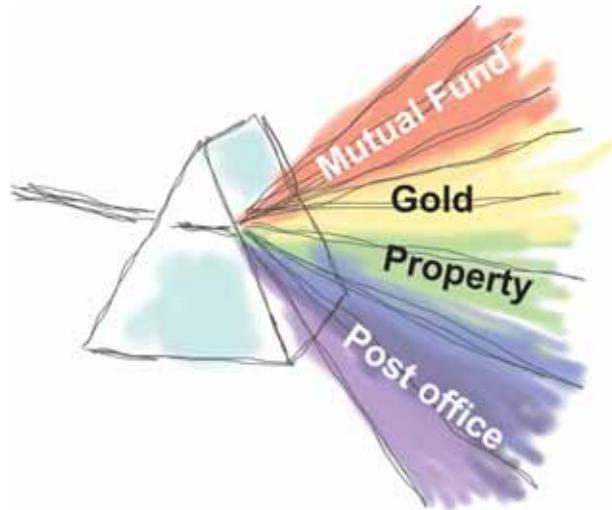
[www.bseindia.com](http://www.bseindia.com)  
[www.statebankofindia.com](http://www.statebankofindia.com)  
[www.rbi.org.in](http://www.rbi.org.in)



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

Sl. No.	Institution	Type of investment	Safety	Liquidity	Return	Special feature, if any
	Banks	Savings Bank Accounts				
		Recurring Deposits				
		Time Deposits				
	Bank/Post Office	Public Provident Fund (PPF)				
	Post Office	Kisan Vikas Patra				
		National Savings Certificate (NSC)				
		Monthly Income Scheme				
		Senior Citizens Savings Scheme				
	Stock Market	Shares				
		Debentures				
		Bonds				
		Mutual Funds				
	Insurance Companies	Endowment Plans				
		Pension Plans				
		ULIP				
	Gold					
	Real Estate					



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 you 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 (Mention Education/ Home/ Car/ Personal/ Consumer durable etc.)	Priority Number (1 for highest priority and so on)	Reasons

**Theory-Wise**  
EMI = Equated Monthly Installment



## 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

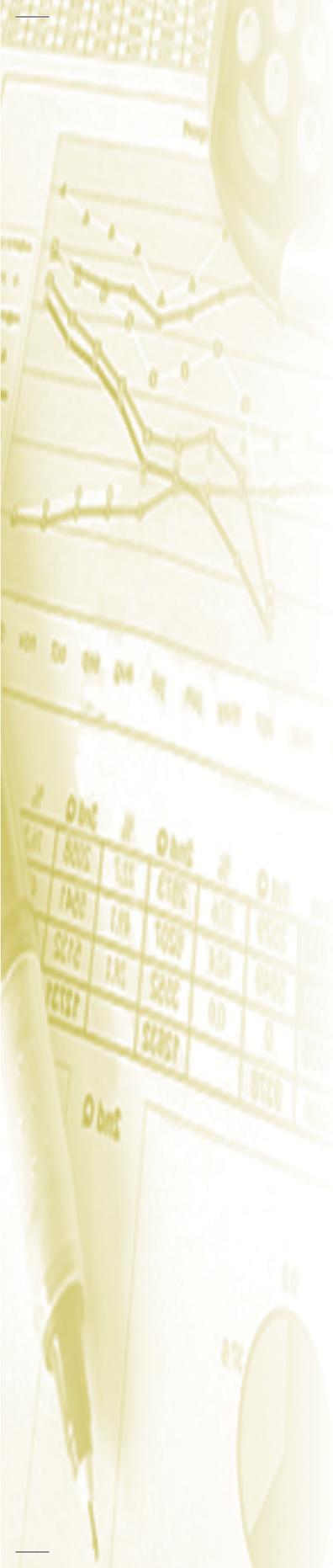
### THE FINAL COUNTDOWN



#### *Dear Parents,*

Today was the 8<sup>th</sup> 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
<b>Steps to save more:</b>				
<b>Suitable investments</b>				



	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 1<sup>st</sup> and the 20<sup>th</sup>.
- 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:

<b>Interest Rates (Aug-2008)</b>	
<b>Duration</b>	<b>Interest Rate(% p.a)</b>
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?

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

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

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