

## UNIT 3 : KEY CHARACTERISTICS OF MONEY

In this unit we will learn about ;

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

### Medium of Exchange

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

**Goods**

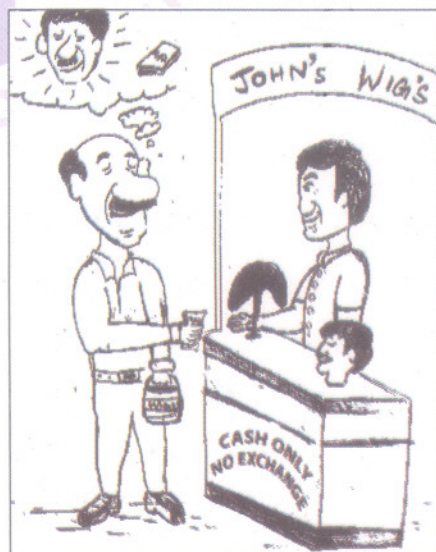


**Services**



### Standard of Value or a Unit of Account

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





## Store of value

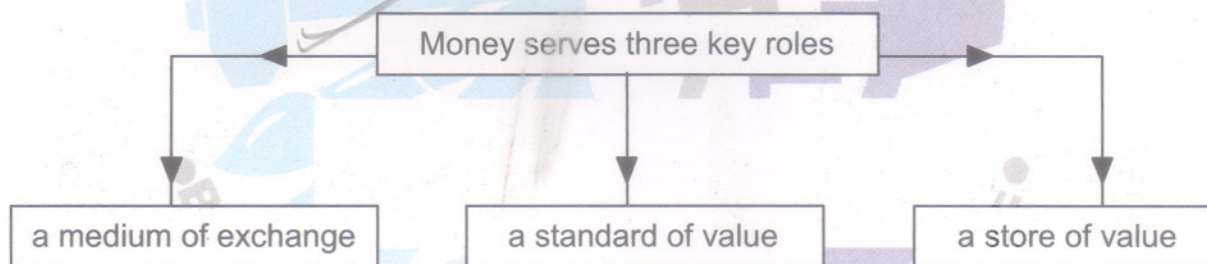
And money has a third function, as a '**store of value**'. Rather than spending the money today, you can store (i.e. save) it for future use.



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

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

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



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

There are some general characteristics for acceptability as money.

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



! Fourth, money has to be **easy to transport**.

! And last, money must be **divisible** into usable quantities or fractions.

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

### Summary :

- Money is readily accepted.
- It serves as standard of value or a unit of account
- It is also a store of value.
- The Characteristics of Money:  
Durable, not easily reproduced by people, relatively scarce, not too scarce, easily Transported & divisible

### Keywords :

Rs-Indian Rupees

### Self-Test questions:

#### I. Choose the correct answer.

1. The most important criterion for anything to serve as money is \_\_\_\_\_.  
a) it should be readily available  
☒ b) it must be readily acceptable  
c) it should be a coin
2. One of our goals in saving is to ensure that the value of our savings doesn't \_\_\_\_\_.  
☒ a) decrease over time  
b) increase over time  
c) have no value over time
3. Money must not be easily reproduced by people and should be \_\_\_\_\_.  
a) readily available



- b) easily produced in abundance  
c) relatively scarce
4. Which of the following is one of the characteristics of money?
- a) Easily reproducible by people.  
b) Unlimited value  
c) Divisible into usable quantities.

## II. Fill in the blanks.

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

## III. Match the following.

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

## IV. True or false.

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

## V. Answer the following briefly.

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



3. Write a short note on store of value.
4. Why should money be divisible into usable quantities?

#### VI. Answer in detail.

1. Explain the characteristics of money.

#### VII. Activities

- > Identify the features of the following commodities and things
- > Do they possess the characteristics of money, Why / Why not ?
- > Give your reasons in a line or two.



<b>Unit Code:</b>	<b>UNIT- 4 TITLE: WHAT IS FINANCIAL PLANNING?</b>			
	<b>Duration:</b>			
	<b>Session 1: Goal Setting</b>			
<b>Location: Class Room, FMM Lab, Calculators</b>	<b>Learning Outcome</b>	<b>Knowledge Evaluation</b>	<b>Performance Evaluation</b>	<b>Teaching and Training Method</b>
	Identify the Smart Goal and its timelines	Identify the Goals which are achievable	Short term Goal & Long term Goal	<b>Interactive lecture:</b> Identify the level of Aspiration.  <b>Activity:</b> Write Goals and How to achieve?
	<b>Session 2: Analyse information of Financial Planning</b>			
	Identify the Area of Analysis	Work on Root Cause Analysis	Steps to achieve goals	<b>Interactive lecture:</b> Create the situation and Discuss  <b>Activity:</b> Play game during PT Class
	<b>Session 3: Creating a Plan</b>			
	Identify case and start Research	Distinguish the Goals achievable or not achievable	Sources to achievable goals	<b>Interactive lecture:</b> Ask need Vs wants  <b>Activity:</b> Create assignments. the



## UNIT 4 : WHAT IS FINANCIAL PLANNING ?

In this chapter, we will learn about :

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

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

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

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

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

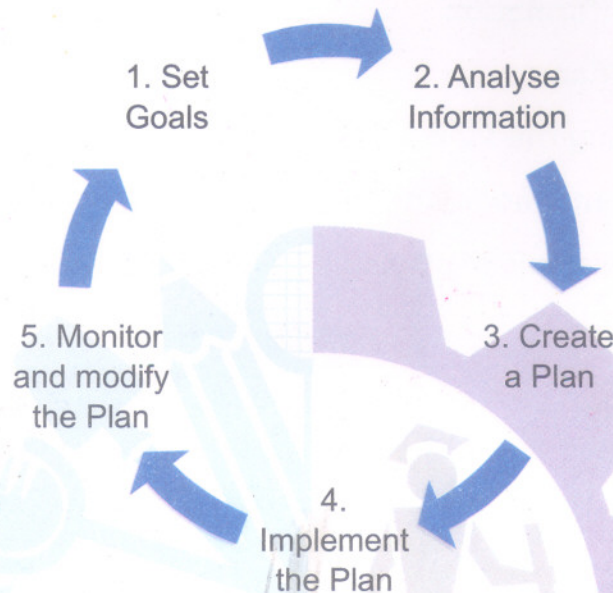
**Financial Planning** is the process of defining goals, developing a plan to achieve them, and putting the plan into action. It is the blueprint (the plan) for handling all aspects of your money, including spending, saving, and investing. Some people plan well and have the rewards that go with it—nicer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



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

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

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



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

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

### **Needs versus Wants**

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

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



## Assignment 1.1

My needs and wants: Can I tell the Difference?

Need	Item / Activity	Want

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

### Some examples of values:

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

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

## Assignment 1.2

### My Values

Value	Why it's important to me



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

### Steps in financial planning:

- Step 1 : Setting Goals
- Step 2 : Analysing information
- Step 3 : Creating a Plan
- Step 4 : Implementing the Plan
- Step 5 : Monitoring and modifying the plan

### Step One :

#### Setting Goals

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

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

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

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

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

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

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



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

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

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

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

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

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

### Sample SMART Goal Timelines.

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

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

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



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

### Step Two:

#### Analyze Information

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

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

### Step Three:

#### Create a Plan

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

Let's say you have two goals:

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

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

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



## Step Four:

### Implementing the Plan

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

## Step Five:

### Monitor and modify the Plan

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

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

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

## Beneficiaries of Financial planning

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



### Summary :

- > Financial Planning is the process of defining goals and prepare plans to achieve the same.
- > Needs are essentials, the basics of life – Food, clothing & Shelter.
- > Wants simply increase the quality of life depending on ones values.
- > A goal is a destination. "SMART" goals enables you to live smartly.
- > Setting the plan for the chosen period is the first step.
- > The second step is to analyze and evaluate information.
- > Next, with the information available take a decision and formulate a plan.
- > Then remain focused on the goal and face any hurdles and challenges.
- > Be realistic while making changes to modify the plan if required.

### Keywords :

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

### Self-Test questions:

#### I. Choose the correct answer.

1. People use some kind of a \_\_\_\_\_ to achieve their goal.  
a) Plan                      b) Commodity                      c) Coin
2. The common factor which you need for any of your personal spending is \_\_\_\_\_.  
a) Parents                      b) Friends                      c) Money
3. Financial planning is \_\_\_\_\_.  
a) a static process                      b) an ongoing process  
c) a finished process
4. Financial planning distinguishes between needs and \_\_\_\_\_.  
a) Money                      b) Wants                      c) People
5. Which of the following is an essential or basics of life?  
a) Needs                      b) Wants                      c) Gold



## II. Fill in the blanks.

1. Financial planning is the process of defining goals, developing a plan to achieve them, and putting the plan into action.
2. Time and money are the limited resources for doing anything we want.
3. Wants increase the quality of life.
4. A goal is a destination, something we want or need.
5. The process of evaluating information about oneself is known as analysing.

## III. Match the following.

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

## IV. True or false.

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

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

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



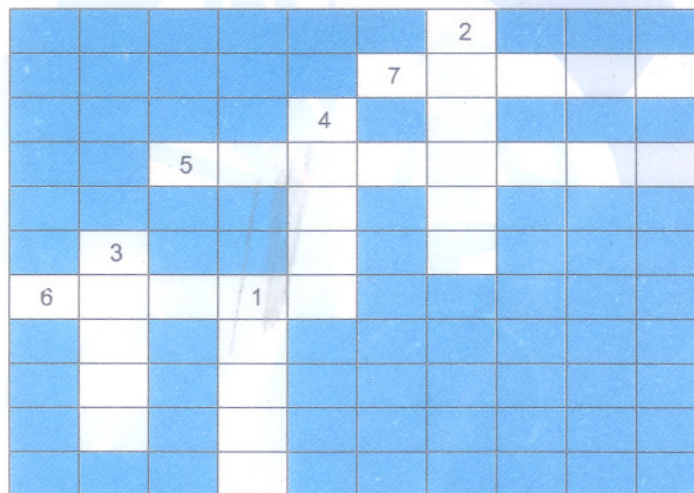
## VI. Answer the following briefly

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

## VII. Answer in detail.

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

## VIII. Crossword puzzle



### Down:

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

### Across (left to right):

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