Financial Literacy

Damaru Ballabha Paudel, PhD

Presentation for Beginners

BIMSTEC Secretariat , Dhaka, Bangladesh
07 August 2020

What do you want to be in future?

The professions in red ink are your answer on Day 1 of this class (10 July 2020)

- Engineer (computer, software, aviation, architect)
- Manager/Nurse/Scientist
- Professor/Teacher
- Doctor
- Bureaucrat/Diplomat
- Business Entrepreneur
- Investor

Most of you have a career plan for future

Why do you want to be.. in future?

- Earn money and manage life long expenses
- Help parents and relatives
- Live an academic life
- Want to do social service
- Want to build nation
- Want to be rich
- Want to spend a lavish life

Most of our plan and activities demand budget/money

How to Manage Lifelong Expenditure?

Manage life long expenditure

Goal

At early age - No earning/No income
(Depend on parents, educational loan)

Income earing age - Have income
(Manage expenses, help parents, create wealth, save for future)

At old age/ Retirement – Pension/Saving
(Use pension/previous saving, get help from children)

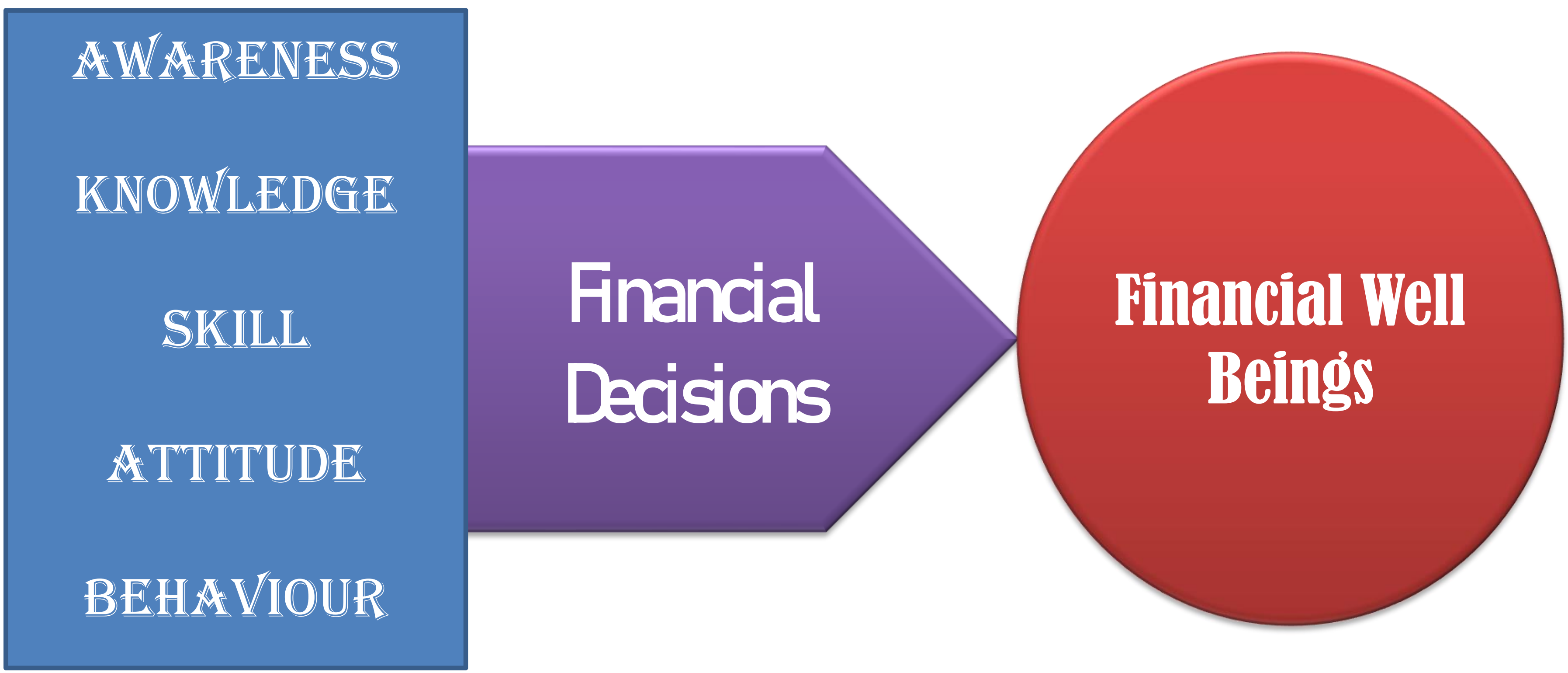
What is Finance?

Finance includes the following activities:

- Earning
- Saving
- Investing
- Borrowing
- Lending
- Budgeting
- Banking
- Forming capital
- Taxing/tax planning
- Exchanging stock
- Planning insurance
- Forecasting economic indicators

What is Financial Literacy?

Definition: An ability to manage money and other financial resources effectively for lifetime financial security.



Some Basic Financial Concepts

- Shortage vs Surplus
- Resources vs Wants
- Needs vs Wants
- Consumers vs Producers
- Demand vs Supply
- Inflation vs Interest Rate
- Poverty vs Prosperity
- Market vs Government
- Private vs Public
- Domestic vs Foreign

- Income vs Expenditure
- Saving vs Investment
- Assets vs Liability
- Balanced vs Unbalanced
- Input vs Output
- Management vs Mismanagement
- Efficiency vs Inefficiency
- Use vs Misuse
- Match vs Mismatch
- Invention vs Innovation

Some Basic Financial Concepts

Sectors in Economy

1. Households
2. Firms/Business/Enterprises
3. Government
4. Foreign (Rest of the world)
5. Financial Sector

The **financial sector** includes the intermediaries that engage in borrowing (savings from households) and lending (investments in firms).

- Central bank (Nepal Rastra Bank): prints money, sets rules
- Banks (Commercial and development banks): create credit
- Non-bank (Micro-finance, cooperative): mobilize small saving
- Insurance: manage life and non-life insurance
- Stock exchange: manage stock/share transactions

Some Basic Financial Concepts

Factors of Production

- **Land:** Not movable factor
- **Labor:** Movable, most active factor
- Capital: Movable factor

Industries in an economy

- **Primary** (the raw materials industries) – Agriculture, forestry, mining etc.
- **Secondary** (the production industries) - Manufacturing, energy, construction etc.
- **Tertiary** (the service industries) – Transportation, tourism, banking, insurance etc.
- **Quaternary** (the skill based industries) – Information, media, casino etc.

Time Value of Money/Power of Money

If you have Rs. 1000 now and the bank interest rate/ inflation is 8% then what happens after 10 Years

Year	If you put in bank	If you put in safe/pocket
2020	1000	1000
2021	1080	930
2022	1170	860
2023	1260	790
2024	1360	740
2025	1470	680
2026	1590	630
2027	1710	580
2028	1850	540
2029	2000	500

Three Basic Options for Earning Money

Professions	Incentives
Employment (Engineer, Manager, Nurse, Scientist, Professor, Teacher, Doctor, Bureaucrat, Diplomat, Journalist etc.)	• No risk or low risk • Human capital with academic merit • Work for others to earn money • Manage life expenses with earned money • Job security, regular income, retirement benefit etc.
Entrepreneurship/ Business	• Have risk • Make profit, earn money • Create wealth
Investment	• High risk • Get return on investment • Create more wealth • Manage a situation that money works for you

- In all cases there might be motives likes - altruism, social service, hobby
- The first one is a RATE RACE but the combination of any or the second and third may take us to the path of FINANCIAL FREEDOM

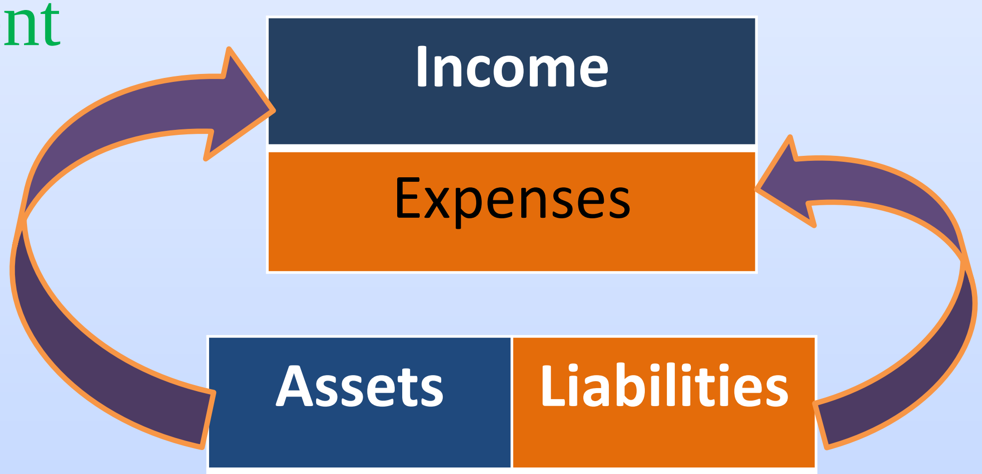
How to Create Wealth?

(Income Vs Expenditure And Assets vs Liabilities)

Income Statement and Balance Sheet

Income Statement

Balance Sheet



- Always buy income producing assets (e.g., share, real state etc.)
- Do not acquire liabilities which you think assets (e.g., house in mortgage, consumer loans, credit card debts etc.)
- Those who buy income producing assets get richer
- Those who buy labilities (which need money to maintain) get poorer
- Those who generate income also create wealth and get richer

Interactive Session

Managing Expenses

- Do you earn money to manage your expenses?

Yes **No**

- If no, who will finance your needs/expenses?

Managing Money

- If you get private money, what will you do?

Spend **Save**

- And why do you …..?

Managing Money

- If you have very small saving, how do you collect it?

Put in piggy bank | **Put in pocket**

- Why do you put in …….?

Managing Money

- If you have reasonable amount of saving, what do you do?

Put in Bank/ Cooperate etc.	Put in Safe/Box

- Why do you want to put in …..?

Financial Decision

- If you want to create wealth, then what will you do?

Invest **Spend**

- Why do you want to …..?

Financial Decision

- If you want to be rich, then what will you do?

Buy Assets

Buy Liabilities

- Why do you want to buy …..?

Financial Decision

- Which one of the following is the worst option for getting financial freedom?

Employment Only | **Employment and Investment**

Employment and Business | **Business and Investment**

- Why do you think so?

Financial Decision

- How do you manage your money in income earning age?

Manage my personal expenses

Manage my personal expenses, save and invest for future, help parents and relatives

Manage my personal expenses, save and invest for future

Manage my personal expenses, help parents and relatives

- Why do you select this?

Value of Money

- The value of money decreases with …

Time **Expenses**

- Why does the value of money reduces with …?

Value of Money

- --- is the time value of money or its opportunity cost.

Investment	Interest
Inflation	Saving

- Why do you think so?

Capital Market Financing

- Which of the following belongs to capital market instrument?

Current deposit	Interest rate
Primary Share (IPO)	Earning

- Why do you think so?

Factors of Production

❖ Which of the following is the only active factor of production?

Capital	Labor
Raw material	Land

❖ Why do you think so?

Way Forward - Passive Investment

(Together with study/employment/business etc.)

Do you know about?

- **Stock exchange** is a place where people buy and sell **stocks** and shares.
- **Brokers** are the agents which facilitate transactions and take commissions for buy and sell of stocks.
- **Demat (Dematerialized) account** - an account to hold financial securities in electronic form.

As of 2018-04-04 13:08:03

S.N.	Symbol	LTP	LTV	Point Change	%Change	Open	High	Low	Volume	Previous Closing
1.	GBIME	300.00	13	0.00	0	300	303	300	12,051	300
2.	JBNL	156.00	100	2.00	1.3	154	157	154	4,321	154
3.	MBL	222.00	100	3.00	1.37	223	226	222	4,653	219
4.	NCCB	235.00	1607	1.00	0.43	237	237	232	16,931	234
5.	ALICL	610.00	100	10.00	1.67	609	615	605	762	600
6.	SCB	826.00	320	6.00	0.73	825	826	820	6,133	820
7.	GLICL	690.00	20	15.00	2.22	688	690	685	1,396	675
8.	SANIMA	349.00	20	1.00	0.29	349	350	347	14,168	348
9.	SKBBL	1,060.00	3	5.00	0	1,055	1,055	1,055	14	1,055
10.	RSDC	662.00	30	4.00	0.61	661	665	660	1,339	658
11.	NABIL	957.00	100	7.00	0.74	952	957	950	3,309	950
12.	NGBBL	475.00	10	13.00	2.81	462	480	461	2,090	462
13.	NUBL	940.00	25	20.00	2.17	938	940	938	375	920
14.	RBCL	8,900.00	10	90.00	1.02	8,870	8,900	8,870	70	8,810
15.	IGI	769.00	10	15.00	1.99	769	769	769	10	754
16.	KBBL	218.00	50	5.00	2.35	217	218	217	474	213
17.	CBL	146.00	100	1.00	0.69	146	146	144	2,330	145

Do you know about Stock Transactions?

Instrument may be in the form of:

- Initial Public Offering (IPO)
- Second Market Transactions
- Bonds/Debentures
- Mutual Funds

Recommendation

NOW Start this:

- Open DMAT account to nearest stock broker
- Save small amount of money and invest in stock market/share market in **“Primary Shares (IPO)”**

LATER if you are more interested in stock, then you can:

- Go to **“Secondary Shares”** to invest - select good companies (blue chips) or potentially rising companies
- Buy the shares of those companies whose current market price (CMP) comes down to their critical value and vice versa

Thank you for attention !

Have Questions, Please..