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SOLUTIONS BOOK

CLASS 9

Social Science · Understanding Society

CHAPTER 5

Managing Your Personal Finances

Complete Questions and Activities Solutions

In-text Questions

Questions and Activities

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Every question is followed by its answer. Question numbers above are clickable and the PDF bookmarks panel lets you jump to any exercise set or question. Figures are reproduced from the NCERT textbook (© NCERT) for educational use.

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5.1

CLASS 9 SOCIAL SCIENCE · CHAPTER 5

In-text Questions

Solutions · 16 questions

Directions (Questions 1–16): These are the questions that appear inside the chapter (The Big Questions, Think About It, Let's Explore and Let's Analyse), numbered in the order in which they appear. Many are open-ended; model answers based on the chapter are given, and you may add examples from your own surroundings.

QUESTION 1 *The Big Questions · p. 107*

What is personal finance and why is it important for individuals?

ANSWER

Personal finance is the planning and management of an individual's money to meet their needs and wants. It is important because money is a resource that has to be used efficiently.

a What personal finance involves

- Planning and managing money to meet **needs** and **wants**.
- Making smart financial decisions: how much to spend, how much to save, where to invest, and how to prepare for future financial needs.
- Example: if someone wants to buy a house in the next five years, they must plan and manage their money well to achieve this goal.

b Why it is important

- Individuals and households have to make many decisions involving money, so money must be utilised efficiently.
- It helps people achieve goals such as buying a house or funding higher education.
- It helps control unnecessary spending and live within one's means.
- It prepares a person for emergencies and risks through savings and protection.
- Making informed financial decisions from a young age builds financial security, independence and confidence for the future.

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Therefore, personal finance is the planning and management of money to meet needs, wants and future goals, and it is important because money must be used wisely.

QUESTION 2 *The Big Questions · p. 107*

What are the pillars of personal finance?

ANSWER

Personal finance rests on five pillars: income, budgeting, saving, investing, and protection and risk management (Fig. 5.2).



Fig. 5.2. Pillars of personal finance

a The five pillars

Pillar	What it means	Example from the chapter
1. Income	The money a person receives regularly or occasionally in return for products sold or services rendered. It is the starting point of personal finance.	A teacher's monthly salary; a shopkeeper's profits; rent from property; interest on bank deposits; dividends on shares
2. Budgeting	Planning in advance how income will be spent. A budget is a written plan that aims to balance income and expenses.	A family decides how much to save each month and how much to spend on food, rent, school fees and transport
3. Saving	Keeping aside a part of one's income for future use or emergencies; a financial surplus accumulated over time.	Saving for a school trip, for higher education or for emergencies
4. Investing	Putting savings into assets to protect their value and generate returns.	Fixed deposits, bonds, stocks, mutual funds
5. Protection and risk management	Safeguarding money and assets through insurance and debt management.	Paying ₹500 every month for health insurance

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Therefore, income, budgeting, saving, investing, and protection and risk management are the five pillars of personal finance.

QUESTION 3 *The Big Questions · p. 107*

What are some common savings and investment options?

ANSWER

Saving means keeping money aside; investing means putting it into assets to earn returns. The common investment options are fixed deposits, bonds, stocks and mutual funds (Fig. 5.5).

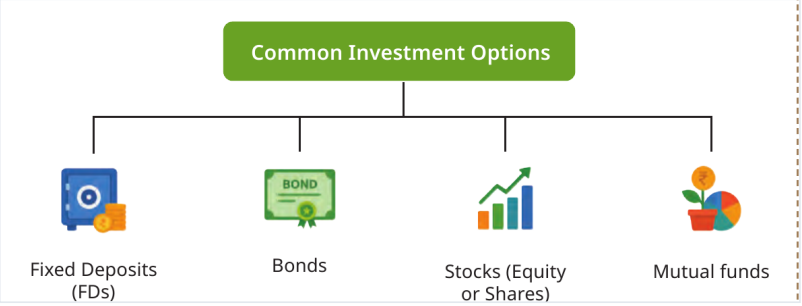


Fig. 5.5. Common investment options

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a Common options

Option	What it is	Risk and return	Suitable for
Fixed deposits (FDs)	A lump sum deposited with a bank or post office for a fixed period (for example one, three or five years) at a fixed rate of interest	Safest; assured but relatively lower returns	People who prefer safety over high returns
PPF and small savings schemes	Government-backed options such as the Public Provident Fund, National Savings Certificate (NSC) and Sukanya Samriddhi Yojana	Safe and reasonable returns	Long-term savings
Bonds	Money lent to the government or companies for a fixed period; the bondholder earns regular interest	Government bonds are generally safer than corporate bonds	Those seeking a stable, predictable income
Stocks (shares)	Part-ownership in a company; returns come from dividends and a rise in the share price	Higher risk; potential for the highest returns over the long term	Investors who accept greater risk and think long term
Mutual funds	Money pooled from many investors and invested in a basket of shares, bonds or other assets by professional fund managers	Returns are not assured; risk is reduced by portfolio diversification	People without the time, knowledge or experience to manage investments

b Bond example from the chapter

A bond worth ₹10,000 paying 5% interest a year gives 5% of ₹10,000 = ₹500 after one year. If it matures after one year, the holder receives ₹10,000 + ₹500 = **₹10,500** in total.

Therefore, fixed deposits, bonds, stocks and mutual funds are the common options, and each offers a different balance of safety and return.

QUESTION 4 *The Big Questions · p. 107*

How can you protect your savings and assets?

ANSWER

Life is uncertain: illness, accidents, loss of income or damage to property can cause large financial losses. Savings and assets are protected mainly through insurance and responsible borrowing.

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a Insurance

- Insurance is a legal contract in which a person pays a regular amount, called a **premium**, to an insurance company, which agrees to compensate specific losses covered under the policy.
- It works on the principle of **risk sharing**: many people pay premiums into a common pool, and those who suffer an unexpected loss receive support.
- Example: a family paying ₹500 every month for health insurance gets a large part of the hospital expenses covered; otherwise it might have to use a substantial part of its savings.

Type	What it protects against	Examples
Health insurance	Medical expenses such as hospitalisation, medicines, diagnostic tests and treatments	Ayushman Bharat Pradhan Mantri Jan Arogya Yojana for eligible low-income households
Life insurance	Loss of the family's support if the policyholder (often the breadwinner) passes away	Helps dependents meet daily expenses, continue children's education and repay loans
General insurance	Losses related to vehicles, homes, businesses and other property	Motor, property, crop and cattle insurance

b Borrowing responsibly

- Borrowing helps when used for productive purposes (for example an education loan) but can create a **debt** burden if used for unnecessary consumer goods.
- Take loans only when necessary and make sure they can be repaid on time.

Therefore, savings and assets are protected through insurance (health, life and general) and by borrowing only when necessary and repaying on time.

QUESTION 5 *The Big Questions · p. 107*

What is income tax?

ANSWER

Taxes are compulsory payments made by individuals and businesses to the government to fund public services. Income tax is a direct tax paid on the income a person earns in a financial year.

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a Types of taxes

Type	Meaning	Example
Direct taxes	Paid directly on a person’s or organisation’s income or profits	Income tax
Indirect taxes	Added to the price of goods and services	Goods and Services Tax (GST)

b Personal income tax

- It is paid on the income earned in a year, called a financial year (for example 1 April 2001 to 31 March 2002).
- All citizens of India with a personal income must pay it, except individuals who earn below a certain limit.
- The system is **progressive taxation**: as income increases, the tax payable also increases, with higher rates on higher incomes, which aims to reduce income inequality.
- The tax slabs are proposed by the Ministry of Finance in the Union Budget every year, and the Central Board of Direct Taxes (CBDT) administers the laws on direct taxes.

c Table 5.1. New Tax Regime (applicable for FY 2025–26)

Annual income (₹)	Tax rate (%)
Up to ₹4 lakh	Nil
₹4 lakh–₹8 lakh	5%
₹8 lakh–₹12 lakh	10%
₹12,00,001–₹16,00,000	15%
₹16,00,001–₹20,00,000	20%
₹20,00,001–₹24,00,000	25%
Above ₹24,00,000	30%

Therefore, income tax is a direct, progressive tax on yearly income that funds public services and development, and paying it honestly is a citizen’s responsibility.

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QUESTION 6 *Opening Activity · p. 107*

Have you ever received pocket money or money from relatives during festivals or special occasions? Think about how you usually use that money.
(i) Do you spend it immediately or save some of it?
(ii) Do you keep your savings in a piggy bank (*gullak*) or somewhere else?
(iii) How do you manage expenses, such as travelling to school, buying stationery, or occasionally purchasing food from the school canteen?
(iv) Have you ever planned your spending to save for something you wanted later, like visiting your grandparents during summer break?

ANSWER

These questions ask about your own habits, so answers will differ. A model answer is given for each; replace it with your own experience.



Fig. 5.1. Savings in a piggy bank

a Model answers

Question	Model answer
(i) Spend or save?	Save a part first and spend the rest on what is needed. Saving some of the money, rather than spending it all at once, is the first step in managing money.
(ii) Where to keep savings?	A piggy bank (gullak) is useful for small amounts and keeps the money easily available. Larger amounts can be kept in a bank, where they can earn interest.
(iii) Managing expenses	List the regular expenses (travel to school, stationery, canteen food), decide how much each needs, and spend within that limit.
(iv) Planning to save	Yes. To save for a goal, work out how much is needed and by when. For example, to save ₹3,000 in six months you need to save ₹500 each month (3,000 ÷ 6 = 500).

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Therefore, spending, saving and planning for a goal are everyday money decisions, and managing them begins in childhood.

QUESTION 7 *Think About It · p. 108*

Have you ever thought about earning your own money? What kind of skill would you require and which work would you choose?

ANSWER

This is an open-ended question. The chapter shows that income comes in return for products sold or services rendered, so every kind of work needs some skill.

a Ways of earning and the skills they need

Work	Skills required	Type of income
Teacher	Subject knowledge, communication, patience	Monthly salary
Shopkeeper or small business	Managing goods and money, dealing with customers	Profits from the business
Letting out property	Owning property and maintaining it	Rent
Part-time work, internship or apprenticeship (‘Earn While You Learn’)	Willingness to learn, punctuality, basic skills of the job	Income while continuing education

b Your own choice

Choose the work that interests you, name the skill you would need to build (for example computer skills, communication or craft skills), and say how you could start (for example by learning a skill after school or through an ‘Earn While You Learn’ programme). Such programmes provide financial support and also give practical skills, work experience and a better understanding of the real-world workplace.

Therefore, earning income needs a skill, and ‘Earn While You Learn’ programmes let students earn and gain experience while they study.

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QUESTION 8 *Think About It · p. 109*

Suppose you and your friends need to buy new badminton rackets for an upcoming tournament because the old ones have worn out. How would you manage your budget to cover the cost? Would you cut back on other expenses, use your savings, or borrow the amount from your parents or friends?

ANSWER

The best way is to set a clear goal first and then use a mix of the three options, keeping borrowing as the last choice.

a Set the goal (four simple questions from the chapter)

Question	For the rackets
What do I want to achieve?	Buy new badminton rackets for the tournament
How much money will I need?	Find the price of the rackets (for all friends together)
By when do I want to achieve it?	Before the date of the tournament
What steps can help me reach this goal?	Cut back, use savings, and borrow only if needed

b The three options

- **Cut back on other expenses:** reduce unnecessary spending such as eating out or impulse shopping, and put that money towards the rackets.
- **Use savings:** use a part of the savings kept for this purpose, but do not use up the emergency money.
- **Borrow:** borrow from parents or friends only for the remaining amount, and repay it on time (responsible borrowing).

Therefore, set the goal, cut back unnecessary expenses, use savings sensibly, and borrow only for what is still left.

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QUESTION 9 *Let's Explore · p. 109*

Think of all your expenses and prepare your monthly/weekly budget using the template on Page 122.

ANSWER

This is an activity based on your own expenses. Follow the four steps of budgeting (Fig. 5.3) and fill in a template like the one shown below. The amounts are illustrative; use your own.

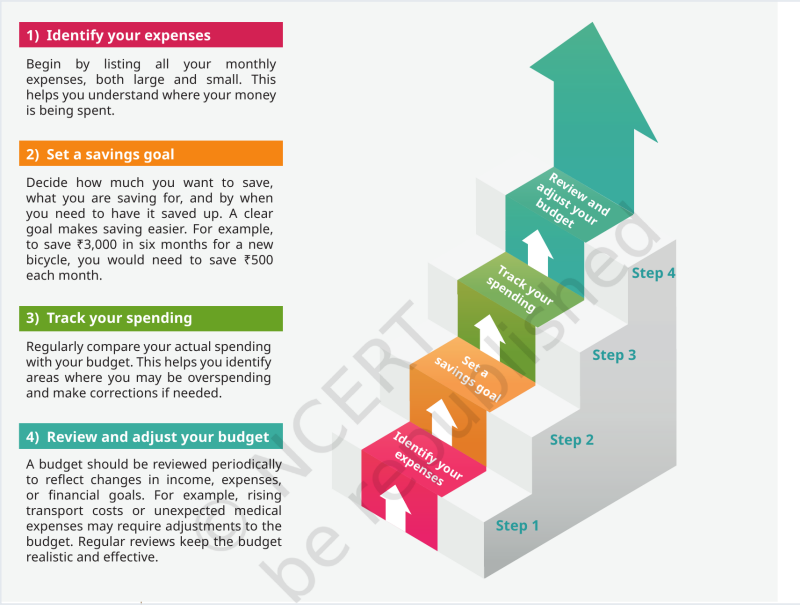


Fig. 5.3. Steps in budgeting

a Model monthly budget (illustrative)

Total amount (pocket money for the month): ₹600	Amount (₹)
Travel to school	200
Stationery	100
School canteen	150
Other small needs	50
Total expenses	**500**
Savings (₹600 − ₹500)	**100**

Check: 200 + 100 + 150 + 50 = 500, and 500 + 100 savings = ₹600, the total amount.

b Steps followed

- **Identify your expenses:** list all the large and small expenses.

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- **Set a savings goal:** decide how much to save, for what, and by when.
- **Track your spending:** compare actual spending with the budget.
- **Review and adjust:** change the budget when income, expenses or goals change.

Therefore, a budget lists the expenses, sets aside savings, and is tracked and reviewed so that spending stays within income.

QUESTION 10 *Think About It · p. 111*

What would you do if you received ₹100 today? Would you save some or all of it, or spend it right away?
In the Grade 9 Part 1 Chapter 'Building Blocks in Economics: The Problem of Choice', you learnt about wants and needs. Would you prefer spending the money on a want or a need?
Financial experts often suggest saving first and spending what is left. Do you agree?
Do you think individuals with low income can also save? Why or why not?

ANSWER

These are opinion questions. Model answers are given, with reasons based on the chapter.

Question	Model answer
1. ₹100 today	Save a part and spend the rest. For example, put ₹50 in the gullak and use ₹50 for something needed.
2. Want or need	Spend on a **need** first (for example a notebook), because needs are essential. A want can be met afterwards if money is left.
3. Save first, spend what is left	Agree. If savings are set aside first (Expenses = Income − Savings), the saving is not forgotten. For example, from ₹100, save ₹20 first and spend the remaining ₹80.
4. Can low-income individuals save?	Yes. Even a small amount saved regularly adds up (₹10 a day is ₹300 in 30 days), and savings help in emergencies. Low income makes budgeting even more important.

Therefore, it is wise to save first, spend on needs before wants, and to save regularly even when the amount is small.

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QUESTION 11 *Investing · p. 111*

Priya and Sameer both receive ₹500 as a birthday gift. Priya keeps her ₹500 in a piggy bank at home. One year later, she still has ₹500. Sameer puts his ₹500 into a savings scheme that earns 8% interest a year. One year later, he has ₹540. Both are being responsible with money, but are they doing the same thing?

ANSWER

No. Both are saving, but only Sameer is also investing, so his money has grown while Priya's has not.

a Comparison

Point	Priya	Sameer
Gift received	₹500	₹500
Where kept	Piggy bank at home	Savings scheme at 8% a year
Value after one year	₹500	₹540
Gain	₹0	₹40

Sameer's interest = 8% of ₹500 = ₹40, so he has 500 + 40 = **₹540**.

b Why it matters

- Keeping savings in cash gives greater **liquidity**, but the money does not grow.
- Investing helps increase wealth and allows money to grow faster than the rate of **inflation**; cash kept at home loses **purchasing power** over time.

Therefore, they are not doing the same thing: Priya only saves, while Sameer saves and invests, and his ₹500 grew by ₹40.

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QUESTION 12 *Let's Explore · p. 112*

(i) In Fig. 5.4, the curves are flatter in the beginning and tend to become steeper in the later years. Why do you think that happens?
(ii) Talk to your parents and find out the fixed deposit rates of their bank. You can also refer to the bank's website.

ANSWER

The curves become steeper because of compounding: returns are earned not only on the money invested (the principal) but also on the returns already earned.

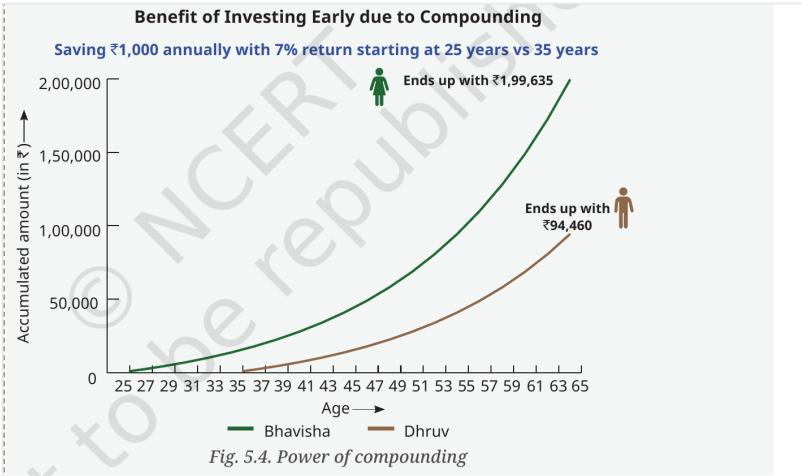


Fig. 5.4. Power of compounding

Fig. 5.4. Power of compounding

i Why the curves are flatter at first and steeper later

- In the early years the amount saved is small, so the interest earned each year is small.
- As the balance grows, interest is earned on a larger amount, and interest is also earned on earlier interest. So each year adds more than the year before.
- Check with Bhavisha (₹1,000 saved at the end of every year at 7% from age 25):

Years of saving	Amount accumulated (₹)	Added in the last 10 years (₹)
10 years (age 35)	13,816	13,816
20 years (age 45)	40,995	27,179
30 years (age 55)	94,460	53,465
40 years (age 65)	1,99,635	1,05,175

Each ten-year block adds roughly double the previous block, which is why the curve steepens. Dhruv, who starts ten years later, ends with ₹94,460, less than half of Bhavisha's ₹1,99,635,

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because his money has less time to compound.

ii Fixed deposit rates (activity)

Ask your parents or check the bank's website, and record what you find in a table like this:

Bank	Period of the deposit	Rate of interest (% a year)
(name of the bank)	1 year	(fill in)
(name of the bank)	3 years	(fill in)
(name of the bank)	5 years	(fill in)

In a fixed deposit the rate stays unchanged for the whole period. Illustration (assumed rate, not a bank's rate): ₹10,000 at 7% a year compounded annually for 3 years = $10,000 \times (1.07)^3$ = ₹12,250.43.

Therefore, compounding makes the curve steeper over time, so starting early matters.

QUESTION 13 *Let's Analyse · p. 114*

Look at the graph below that displays the performance of BSE SENSEX over the years. It fluctuates over short time periods; however, it can go up significantly in the long run. Why do you think these fluctuations happen? Discuss possible reasons with your classmates and find out more from newspapers, the internet, or by speaking to your family members.

ANSWER

The BSE SENSEX tracks 30 large, financially sound and actively traded companies. It moves up and down because share prices keep changing.

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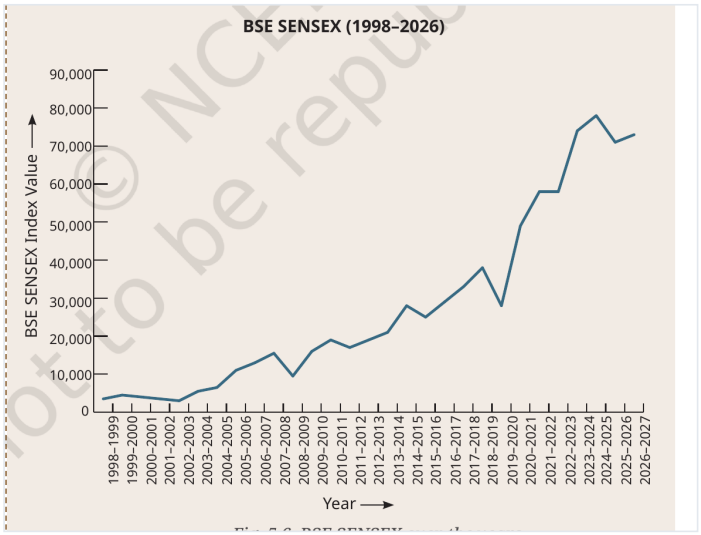


Fig. 5.6. BSE SENSEX over the years

a Reasons for the fluctuations

- **Market conditions:** share prices rise and fall with buying and selling by investors.
- **Company performance:** better or worse results of companies change their share prices, and the SENSEX follows the 30 companies.
- **Broader economic changes:** events in the economy, such as the global financial crisis of 2008 and the COVID-19 pandemic in 2020, are followed by sharp falls in the graph.

b What the graph shows

- Over short periods the line goes up and down.
- Over the long run it rises significantly, from a few thousand points in 1998–99 to more than 70,000 (read approximately from the graph).

Therefore, share prices fluctuate in the short run because of market conditions, company performance and economic changes, but can rise significantly in the long run.

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QUESTION 14 *Think About It · p. 115*

Have you heard this disclaimer in mutual fund advertisements on the television?
“Mutual fund investments are subject to market risks. Please read all scheme-related documents carefully before investing.”
Why do you think this is included?

ANSWER

The disclaimer warns investors that returns on mutual funds are not guaranteed and that they can lose money.

a Why it is included

- The money of a mutual fund is invested in shares, bonds or other assets. If these investments perform poorly, investors may incur losses.
- Share prices fluctuate due to market conditions, so no one can promise a fixed return.
- It tells people that higher potential returns come with higher risk (the risk–return trade-off, Fig. 5.9).
- It asks investors to read the scheme-related documents carefully and understand the risk before investing.

Therefore, the disclaimer is included to make investors aware of market risk so that they decide carefully before investing.

QUESTION 15 *Think About It · p. 117*

• Why might a family choose to buy something on EMI even if it costs more in the long run?
• Can having too many EMIs affect savings and emergency funds?

ANSWER

An EMI (equated monthly instalment) is the fixed amount paid every month to repay a loan. Each EMI includes part of the loan amount (the principal) and the interest charged by the lender.

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a The chapter’s example

Item	Amount
Price of the refrigerator	₹30,000
EMI per month for 12 months	₹3,000
Total paid (3,000 × 12)	₹36,000
Extra paid over the price (36,000 − 30,000)	₹6,000

i Why a family may still choose EMI

- It does not have to pay the entire amount at once, so the cost is spread over small monthly payments.
- It can get a needed item (such as a refrigerator) immediately and keep its savings untouched.

ii Effect of too many EMIs

- Yes. EMIs are fixed payments every month, so too many reduce the money left for saving.
- If income falls or an emergency occurs, the family may have to use up emergency funds or borrow more, leading to a debt burden.

Therefore, EMIs make buying easier but cost more in total, and too many EMIs can reduce savings and emergency funds.

QUESTION 16 *Let’s Analyse · p. 120*

(i) Sai’s taxable income is ₹3,80,000 in a financial year. How much income tax does he have to pay according to the above tax slabs?
(ii) Ask your parents, relative or a person in your neighbourhood if they file personal income tax returns. Make a small report on the procedure to file an income tax return. You may refer to the following website:
https://incometaxindia.gov.in/Pages/tax-services/file-income-tax-return.aspx

ANSWER

Income tax is charged slab by slab (Table 5.1). The first ₹4 lakh of taxable income is not taxed.

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i Sai’s income tax

Portion of income in the tax slab	Tax rate	Tax on that portion
Up to ₹4,00,000 (Sai’s whole income, ₹3,80,000, falls here)	0%	0% of ₹3,80,000 = ₹0
₹4,00,001–₹8,00,000	5%	No income in this slab
Total tax		**₹0**

Since ₹3,80,000 is less than ₹4,00,000, Sai’s income lies in the nil slab. **Sai has to pay no income tax (₹0).**

ii Report on filing an income tax return (activity)

Use the website given in the chapter and talk to a person who files returns. A typical procedure:

- Collect the documents: PAN, details of income (for example salary details), bank interest details and bank account details.
- Log in (register first if needed) on the income tax e-filing website.
- Select the financial year and the correct return form, then fill in the income, deductions and tax already paid.
- Check the tax calculated, submit the return, and complete the verification of the return.
- Keep the acknowledgement for your records.

Person asked	Files a return?	Steps they follow	Difficulties faced
(name / relation)	(yes / no)	(fill in)	(fill in)

Therefore, Sai pays no tax because his taxable income is below ₹4 lakh, and filing a return follows a set online procedure.

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5.2

CLASS 9 SOCIAL SCIENCE · CHAPTER 5

Questions and Activities

Solutions · 9 questions

Directions (Questions 1–9): These are the Questions and activities at the end of the chapter (pages 121–124). Answer each in your own words using the points given.

QUESTION 1

Why is managing money wisely important for all individuals irrespective of their income?

ANSWER

Money is a resource that should be used efficiently, whatever the amount. Managing it wisely is not just about earning more; it is about careful decisions at every stage.

a **Reasons**

- **Needs come first:** a plan makes sure that essential needs such as food, rent, school fees and transport are met before wants.
- **Low incomes need care:** when income is small, every rupee counts, so planning and saving even a little are important.
- **Higher incomes can also be wasted:** without a plan, impulse shopping and excessive spending can leave no savings and lead to debt.
- **Emergencies and risks:** savings and insurance protect against illness, accidents and loss of income.
- **Goals:** saving and investing help to achieve goals such as buying a house or funding higher education.
- **Security and confidence:** making informed decisions from a young age builds financial security, independence and confidence.

Therefore, managing money wisely matters to everyone because it meets needs, prepares for emergencies and secures future goals, at any level of income.

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QUESTION 2

How can budgeting help people balance their present needs with their future financial goals? Give examples.

ANSWER

A budget is a written plan that balances income and expenses. It sets aside money for future goals before the rest is spent on present needs.

a How budgeting helps

- It lists present needs (food, rent, school fees, transport) and sets aside a fixed amount for the future.
- It controls unnecessary spending such as excessive eating out or impulse shopping.
- It helps people prioritise important expenses and live within their means.

b Examples from the chapter

Present need	Future goal	How the budget balances them
Monthly spending on food, rent, school fees, transport	Monthly saving by a family	The family decides how much to spend and how much to save each month
Daily school expenses	A new bicycle costing ₹3,000 in six months	Save 3,000 ÷ 6 = ₹500 every month
Regular expenses	A school trip next month; sports equipment after six months	Set aside a part of income for each goal
Daily needs	Higher education; emergencies	Keep a regular amount for savings

c Four steps of budgeting

- Identify your expenses; set a savings goal; track your spending; review and adjust the budget periodically (for example when transport costs rise).

Therefore, budgeting lets people meet present needs and still save for future goals by planning how every rupee of income is used.

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QUESTION 3

School Reopening Budget Activity
Your parents have given you ₹3,000 to prepare for the new school year. Make a list of the items you need, find out their prices (by visiting local stores, or asking a parent or teacher), and prepare a budget. Calculate the total cost and check whether it stays within ₹3,000.
• If your total is less than ₹3,000, you may add one additional item of your choice.
• If your total exceeds ₹3,000, decide which item(s) you can postpone or avoid buying to stay within your budget.
Use the budget template provided and ensure that all expenses are accurately calculated.

ANSWER

The prices below are illustrative. In your own work, use the prices you find in local stores or from a parent or teacher; the method of calculation stays the same.

a School Reopening Budget (template filled with sample prices)

Total amount: ₹3,000	Amount (₹)
School bag	600
Books	700
Uniform and shoes	800
Notebooks	300
Pens	80
Pencils	40
Art supplies	180
Total expenses	**2,700**
Savings (3,000 − 2,700)	**300**

Total = 600 + 700 + 800 + 300 + 80 + 40 + 180 = ₹2,700, which is within ₹3,000.

b If the total is less than ₹3,000

Add one item, for example a geometry box costing ₹150. New total = 2,700 + 150 = ₹2,850, and savings = 3,000 − 2,850 = ₹150.

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c If the total exceeds ₹3,000

Suppose uniform and shoes cost ₹1,200 instead of ₹800. The total becomes 2,700 + 400 = ₹3,100, which is ₹100 more than the budget. Postponing the art supplies (₹180) brings it to 3,100 − 180 = ₹2,920, within ₹3,000.

Therefore, with the sample prices the total is ₹2,700 (savings ₹300); if it exceeds ₹3,000, postpone the least urgent item.

QUESTION 4

Why is saving alone often not enough to build wealth in the long run? How do investments help increase the value of money over time?

ANSWER

Savings kept as cash do not grow, while prices keep rising. Investing puts savings into assets that generate returns and can grow faster than inflation.

a Why saving alone is not enough

- Cash kept at home earns nothing: Priya's ₹500 is still ₹500 after a year.
- Because of inflation, prices rise. A school bag costing ₹1,000 today costs about 1,000 + 6% of 1,000 = ₹1,060 next year at 6% inflation, so ₹1,000 kept at home can no longer buy it. Its purchasing power has fallen.

b How investments help

- Sameer's ₹500 at 8% became ₹540, a gain of ₹40.
- If the ₹1,000 for the bag had earned 8%, it would become 1,000 + 80 = ₹1,080, more than the ₹1,060 price, so the bag can still be bought.
- Through **compounding**, returns are earned on earlier returns too. Bhavisha, who saved ₹1,000 a year at 7% from age 25, had ₹1,99,635 by age 65.

Point	Savings in cash	Investments
Liquidity	Greater	Lower for some assets
Growth	Does not grow	Can increase wealth
Effect of inflation	Purchasing power falls	Can grow faster than inflation
Risk	Low	Depends on the asset

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Therefore, saving alone cannot beat rising prices, while investing helps money grow and keep its value over time.

QUESTION 5

Investment Planning Activity
Suppose you received cash gifts worth ₹3000 on your last birthday and decided to save ₹1500. With the help of your teacher, calculate the returns you might have earned if you had invested this amount in different combinations of investments. For example, what returns would you have received if you had invested ₹500 in a fixed deposit, ₹800 in the stock market, and ₹200 in gold? Try other combinations and find information on the returns from different investment options using reliable sources, such as newspapers, magazines, or official websites. Based on your findings, prepare an investment plan explaining why you think each investment option is suitable or unsuitable.

ANSWER

The actual returns must be taken from reliable sources. To show the method, this model uses **assumed** yearly returns: fixed deposit 7%, gold 8%, stocks +12% in a good year and −10% in a poor year. Replace them with the figures you find.

a **Returns after one year (return = amount × rate)**

Combination (₹)	FD	Stocks	Gold	Total return (good year)	Total return (poor stock year)
A: FD 500, stocks 800, gold 200	35	96	16	147	−29
B: FD 1,000, stocks 300, gold 200	70	36	16	122	56
C: FD 700, stocks 500, gold 300	49	60	24	133	23
D: FD 1,500 only	105	0	0	105	105

Working for A: FD 7% of 500 = 35; stocks 12% of 800 = 96; gold 8% of 200 = 16; total = 35 + 96 + 16 = ₹147. In a poor stock year, stocks give −10% of 800 = −80, so the total is 35 − 80 + 16 = −₹29 (a loss).

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b Investment plan: suitable or unsuitable

- **Fixed deposit:** low risk with a fixed, assured return, but a lower return. Suitable for money needed safely and for those preferring safety over high returns.
- **Stock market:** highest potential return but also the highest risk, as combination A shows. Suitable only for a small part of money that can stay invested for the long term; unsuitable for money needed soon.
- **Gold:** its price can rise or fall, so it is suitable as a smaller part of the plan for diversification.
- **Plan:** keep the larger part in the fixed deposit (safe) and a smaller part in stocks and gold; combination C is an example of such a spread.

Therefore, spreading ₹1,500 across options balances risk and return: higher possible returns come with the risk of loss.

QUESTION 6

How does inflation affect the value of money over time? Why should people consider inflation while making financial decisions?

ANSWER

Inflation is the increase in the prices of goods and services over time. As prices rise, the same amount of money can buy fewer goods and services, so the purchasing power of money falls.

a Effect on the value of money (chapter example)

Point	Today	After one year (6% inflation)
Price of a school bag	₹1,000	1,000 + 6% of 1,000 = ₹1,060
Money kept at home	₹1,000	₹1,000 (does not grow)
Can the bag be bought?	Yes	No: ₹60 short
Bags that ₹1,000 buys	1 bag	1,000 ÷ 1,060 = about 0.94 bag

b Why people should consider inflation

- Money that does not grow loses purchasing power, so the standard of living falls (the same cash buys less).
- Savings should be placed in investments that can grow faster than the rate of inflation.
- Future goals will cost more than they do today, so budgets and goals should be reviewed periodically (for example when transport costs rise).

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Therefore, inflation reduces the purchasing power of money, so financial decisions must aim for growth that is at least as fast as rising prices.

QUESTION 7

Different investment options involve different levels of risk and return. Do you think taking higher risks is always the best way to earn higher returns? How should a person decide which investment option is most suitable for them?

ANSWER

No. Higher-risk investments **may** offer higher returns, but they can also cause losses, and the return is not guaranteed.

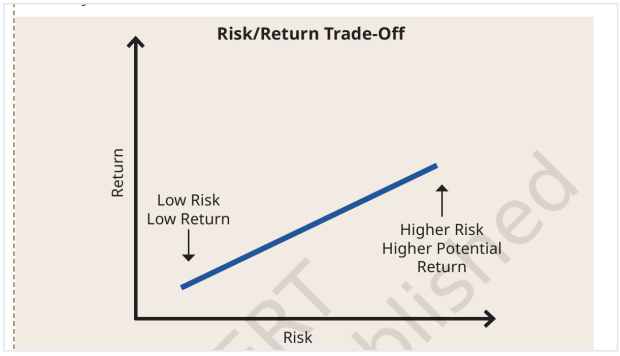


Fig. 5.9. Relationship between risk and return

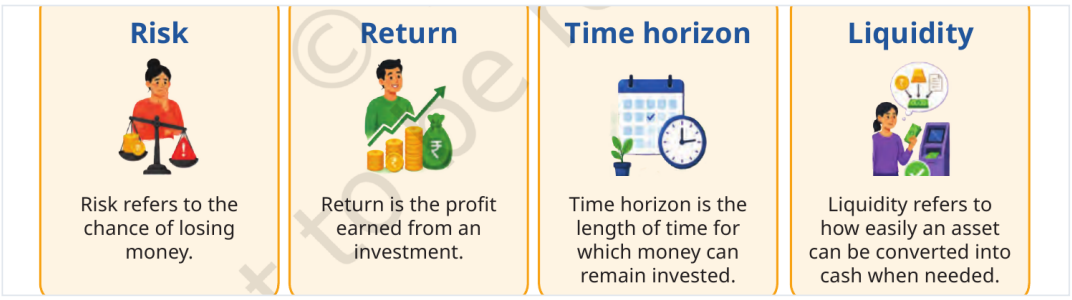


Fig. 5.8. Factors to consider before investment decision

a Why higher risk is not always best

- Risk is the chance of losing money; higher-risk investments may offer higher potential returns but may also lose value.
- Lower-risk investments tend to offer lower returns, which is the risk–return trade-off.
- A person who needs the money soon, or cannot bear a loss, should not take high risk.

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Option	Risk	Return
Fixed deposits	Low	Steady but relatively lower
Mutual funds	Medium	May offer higher returns
Shares (equity)	Highest	Potential for the highest returns over the long term

b How to decide

- Consider four factors: **risk, return, time horizon and liquidity**.
- Choose according to your financial goals, the amount of risk you are willing to take, and when you are likely to need the money.

Therefore, higher risk is not always best; choose the investment that matches your goals, risk tolerance and time horizon.

QUESTION 8

Why do people buy insurance policies even though they may never face a major loss? How does insurance provide financial security?

ANSWER

Life is full of uncertainties, and nobody knows whether or when a loss will occur. Insurance protects against that uncertainty at the cost of a small, regular premium.

a Why people buy insurance

- Illness, accidents, loss of income or damage to property can cause significant financial losses.
- A small premium is paid regularly instead of facing a very large loss at once.
- It encourages people to save and plan their finances through regular premium payments.

b How insurance provides financial security

- It works on **risk sharing**: many people pay premiums into a common pool, and those who suffer a loss receive financial support.
- Example: a family paying ₹500 a month for health insurance has a large part of the hospital expenses covered; without insurance it might use a substantial portion of its savings.
- It reduces the impact of accidents, illness or property damage, and helps families recover from financial setbacks.

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Therefore, people buy insurance for protection against uncertain losses, and the common pool of premiums gives them financial security during emergencies.

QUESTION 9

Imagine your family receives ₹1,00,000 from farming, a small business, livestock sales, and savings. Help your family decide how to use the money wisely.
Step 1: Prepare a Budget. Allocate the ₹1,00,000 among the categories in the table.
Step 2: Needs vs Wants. Classify each expense as a need or a want and give a reason. Examples: School fees; New mobile phone; Better seeds or livestock feed; Festival celebrations; Water storage tank.
Step 3: Save for the Future. Suppose your family saves ₹30,000 at 8% compound interest per year. Using the formula $A = P(1 + r)^n$, where A: Amount, P: Principal, r: Rate of compound interest, n: number of years, calculate: 1. The amount after 5 years. 2. The interest earned.
Step 4: Save First, Spend Later. Expenses = Income − Savings. If your family receives ₹1,00,000 and saves ₹20,000 first, only ₹80,000 is available for spending.
Step 5: Reflect. 1. What percentage of the money did you save? 2. Which expenses were needs and which were wants? 3. How can savings improve a family's financial security? 4. How does compound interest help money grow? Challenge: Create a pie chart showing how the ₹1,00,000 was allocated across different categories.

ANSWER

The allocation below is a model plan. Other sensible plans are possible if the amounts add up to ₹1,00,000 (100%) and needs are met first.

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1 Step 1: Prepare a budget

Category	Amount (₹)	Percentage (%)
Savings	30,000	30%
Education	12,000	12%
Household expenses	25,000	25%
Health and emergency fund	10,000	10%
Farm or business investment	12,000	12%
Home improvement	4,000	4%
Festivals and recreation	4,000	4%
Other	3,000	3%
Total	**1,00,000**	**100%**

Check: 30,000 + 12,000 + 25,000 + 10,000 + 12,000 + 4,000 + 4,000 + 3,000 = ₹1,00,000. Percentage = amount ÷ 1,00,000 × 100.

2 Step 2: Needs vs wants

Expense	Need or want	Reason
School fees	Need	Education is essential for a child's future
New mobile phone	Want	The family can manage without it; it can wait
Better seeds or livestock feed	Need	Needed for farming and livestock, which give the family's income
Festival celebrations	Want	Important to enjoy, but can be kept within a small amount
Water storage tank	Need	Water is essential for the household and the farm

In the budget: savings, education, household expenses, health and emergency fund and farm or business investment are needs; festivals and recreation, and non-essential home improvement and other spending are wants.

3 Step 3: Save for the future

P = ₹30,000, r = 8% = 0.08, n = 5 years. $A = P(1 + r)^n = 30{,}000 \times (1.08)^5$.

Calculation	Value
$(1.08)^2 = 1.08 \times 1.08$	1.1664
$(1.08)^3 = 1.1664 \times 1.08$	1.259712
$(1.08)^4 = 1.259712 \times 1.08$	1.360489
$(1.08)^5 = 1.360489 \times 1.08$	1.469328

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Calculation	Value
1. Amount after 5 years A = 30,000 × 1.469328	**₹44,079.84 (about ₹44,080)**
2. Interest earned = A − P = 44,079.84 − 30,000	**₹14,079.84 (about ₹14,080)**

Year-by-year check: 30,000 → 32,400 → 34,992 → 37,791.36 → 40,814.67 → 44,079.84 (each year × 1.08).

4 Step 4: Save first, spend later

With the textbook's example: Expenses = 1,00,000 − 20,000 = ₹80,000 available to spend. With this plan, ₹30,000 is saved first, so Expenses = 1,00,000 − 30,000 = **₹70,000**, which is exactly the total of the other seven categories (12,000 + 25,000 + 10,000 + 12,000 + 4,000 + 4,000 + 3,000 = 70,000).

5 Step 5: Reflect

- **1. Percentage saved:** 30,000 ÷ 1,00,000 × 100 = **30%**.
- **2. Needs and wants:** see Step 2. Needs were met first; wants were kept small (festivals and recreation 4%, other 3%).
- **3. Savings and security:** savings give money for emergencies, reduce the need to borrow, allow investments and help in reaching future goals.
- **4. Compound interest:** interest is earned on the earlier interest too. At 8% for 5 years, compound interest is ₹14,079.84, while simple interest would be 30,000 × 8% × 5 = ₹12,000; compounding gives about ₹2,080 more, and the gap widens with time.

★ Challenge: pie chart

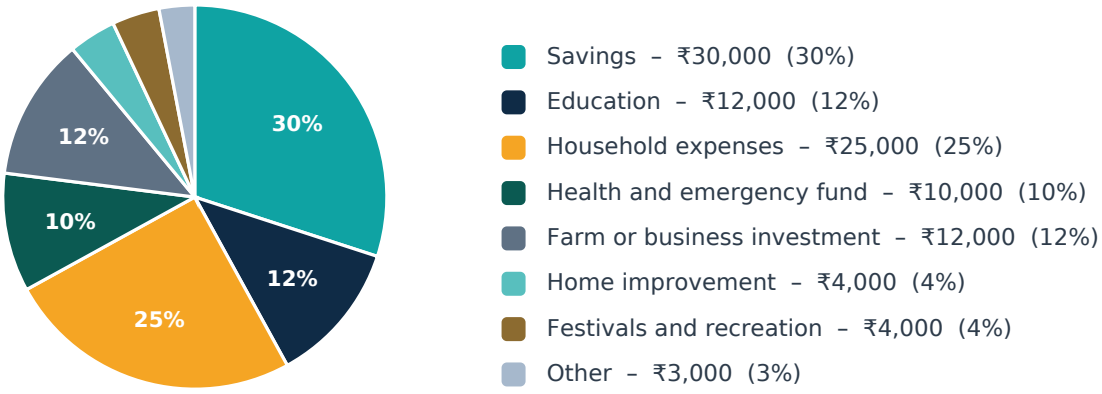


Fig. A. Allocation of the ₹1,00,000 (model plan)

Therefore, a family should save first, meet needs before wants, and use compound interest to make its savings grow.

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