

28

Savings and Investment

You are already aware of the various economic activities. Individuals engage themselves in such activities to earn money. The money they earn is normally spent on meeting daily needs like buying vegetables, groceries, clothes, giving school fees, telephone bills etc. People also generally try to keep aside a part of their earnings to meet future needs like marriage of their sons and daughters, buying a house, health care, etc. You also find some people who use a part of their earning to deposit in banks or in buying shares, property or gold. By doing so these people are also able to generate some extra earnings for themselves.

Let us learn more about how people earn; how they spend; how they keep money for future needs and how they use their earnings to get some return.

28.1 Objectives

After studying this lesson you will be able to:

- explain the terms ‘income’ and ‘expenditure’;
- identify various ‘sources of income’ and ‘avenues of expenditures’;
- explain the concepts of ‘savings’ and ‘investment’;
- recognise the need for ‘savings’ and ‘investment’; and
- identify the avenues of ‘investment’.

28.2 Income

As we know, individuals engage in one or the other occupations to earn their livelihood. For

example, a person may be employed in Bank and draw salary, a person may engage in selling books and earn a profit, a doctor or a lawyer may do the private practice and get fees for their services. The earning from all these sources is called income.

Sometimes we find people earn from more than one source. For example, a teacher can write books for schools and he gets some money from the publishers. If he is a singer, he can sing for All India Radio (AIR) for which AIR gives him some money. Thus, one individual can engage in different occupations to earn money. The earnings from different sources collectively is called as his total income. This total income in a month is called as his monthly income and in a year is annual income.

28.3 Sources of Income

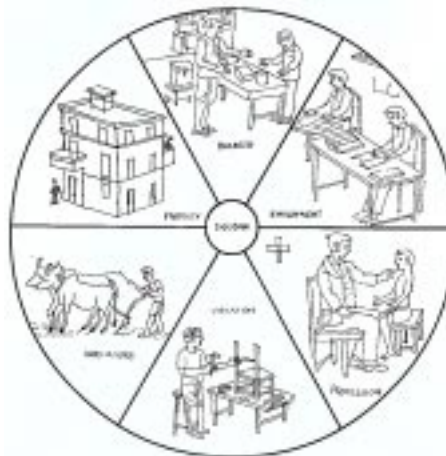
You learnt that people earn money from different sources. Some may earn from a single source and others may have multiple sources. Let us learn about the various sources from which people earn their income.

- i. Business: Individuals engaged in business earn income by way of profit.
- ii. Employment: People who are in employment earn their income by way of salary or wages.
- iii. Profession: You have seen doctors, lawyers and chartered accountants. They provide personal services of special nature and charge fees for their services. This fee is the source of income for professionals.

Sources of Income

Income normally arises from

- Business
- Employment
- Profession
- Vocation
- Agriculture
- Property
- Other sources



- iv. Vocation: As we know vocation is the application of one's special skill or knowledge to earn money. For example, a good cook can cook food at marriage parties and earn some income. A carpenter can make or repair furniture and earn income.
- v. Agriculture: When we cultivate land we produce crops, paddy, vegetables etc. All or a part of it can be sold which gives us a return. This earning is called agricultural income.
- vi. Property: Normally owning land or a home is considered as owning property. This property can be given on rent or lease to some one for use and we get a return on it. Thus, it becomes a source of income for us.
- vii. Other Income: People keep a part of their earning either in banks, post office or they can buy shares and debentures, government bonds etc. All these give them some return in the form of interest/dividend. These are also called their income.

Intext Questions 28.1

Match the phrases in column A with those in column B.

Column A	Column B
(a) An individual's earnings from different occupations taken together	(i) profit
(b) A farmer's income from the cultivation of crops and vegetables	(ii) wages or salary
(c) Income earned from business activities	(iii) annual income
(d) Earnings of those individuals who are in employment	(iv) total income
(e) Income earned by keeping one's money in a bank or buying shares and debentures	(v) interest or dividend
(f) Total earnings of an individual in one year.	(vi) agricultural income

28.4 Expenditure

When we buy goods or products we pay money for them. Similarly when we avail of some services like consulting a doctor during illness or getting water and electricity for use, we also pay for them. Normally we pay for all these goods and services since we use them. Sometimes we present some gift items to our friends and relatives for their use. Besides this, we also spend money on charity and donation to the poor persons and also to the cyclone or earthquake victims. In these cases, we do not earn any money out of such spending. These are our expenditure. Sometimes we spend money and use it for other purposes to get some additional income. That spending is a type of expenditure through which we generate further income. This is called investment. To clarify the concepts further let us observe the activities of a housewife and a restaurant owner. Both of them buy vegetables. A housewife buys them for consumption of her family and the restaurant owner buys them to prepare different dishes and sells them at a profit. In the first case the housewife does not get any monetary return. Thus, it is expenditure for her. In the second case i.e., in case of restaurant owner, spending on vegetable can be termed as investment, because the spending on vegetables finally generates additional income for him. We shall learn about investment in section 28.9 of this lesson.

Thus, the term 'Expenditure' refers to spending of money on any item, which does not give any additional monetary income in return to the person who spends that amount.

28.5 Avenues of Expenditure

Generally, most of us spend a major portion of our income on buying goods and services for daily consumption. Besides spending on goods and services there are also many other areas in which we spend money like expenditure on celebrations, on entertainment, charity and donation,

etc. The different areas in which we spent our earnings are called avenues of expenditure. Let us learn in detail about all these avenues.

- i. **Expenditure on Goods and Commodities:** We may spend money on various types of goods and commodities needed for use in our daily living. These may be perishable goods like vegetables, milk, fish, etc. or may be consumer durables like television, radio, furniture etc.
- ii. **Expenditure on Services:** We also spend money for availing of different types of services. It may be for availing banking services, postal services, transport services, communication services etc.
- iii. **Expenditure on Celebrations:** In our daily life we find several occasions for celebration. It may be a birthday, an anniversary, a festival, a marriage ceremony etc. On such occasions we spend a lot of money.
- iv. **Expenditure on Entertainment:** In our busy life we often feel like taking a break for some sort of enjoyment through entertainment programmes. This may include going to watch a movie or drama or dance or cricket match or even going for a picnic or tour.
- v. **Expenditure on Charity and Donation:** Sometimes people spend money by donating to individuals or institutions engaged in social services or charitable works. These are called expenditure on charity and donation.
- vi. **Expenditure on Health and Education:** In a family people usually spend some money on health and education of their children. When individuals go for higher education it requires more money. Thus, money spent on health and education may be termed as expenditure.
- vii. **Other Expenditure:** The modern age has paved newer avenues of expenditure for people. For example, now-a-days people go to a gymnasium to keep themselves physically fit, go to beauticians to take care of their body and beauty, surf the Internet to gather information and also send e-mails, etc.

Intext Questions 28.2

Given below is a list of situations where money is spent. Is expenditure incurred in these cases? Answer by writing 'Y' if yes and 'N' if no.

- (i) Money spent by a student on buying a bus ticket for going to school.
 - (ii) A doctor spending money to buy an x-ray machine for his hospital.
 - (iii) A shopkeeper buying stationery for sale in his shop.
 - (iv) Shopkeeper spending money to buy furniture for personal use.
 - (v) Money spent by a housewife to pay her child's school fee.
 - (vi) Money given by a housewife to an orphanage as donation.
 - (vii) Money spent by a bank to add a counter in their branch to serve larger number of customers.
 - (viii) Money spent by a factory owner to buy raw material for producing school bags.
 - (ix) Money spent to organise a birthday party.
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28.6 Savings

Ramesh and Suresh are working in a school. They had joined this school together and have been earning some amount of money for the last five years. Last month there was a training programme on computers in their school and both of them participated in it. They liked computers so much that they decided to buy one each for their own use. Ramesh asked the school authority for a loan to buy the computer, as he did not have sufficient money with him. The school authority asked him to wait for at least two months to get the loan processed and sanctioned. Suresh had sufficient money with him and he went to the market and purchased a computer.

Knowing this Ramesh asked Suresh, “Look, from where did you get this money?” Suresh said, “I got it from my savings”. Ramesh enquired, “What is savings?” Suresh answered, “See, every month I used to keep aside a portion of my income for future use. And over a period of five year this has become a substantial amount to enable me to buy a computer.”

Thus, we find that savings refer to the amount of money, which is kept aside from the current income for future use. We may be able to keep aside this money either by reducing our expenditure or by increasing our income or by doing both.

28.7 Need for Savings

Savings are essential not only for individuals, family or businessmen but it is also very much required for a nation. Growth is practically impossible without savings. Individuals save because of several reasons. Let us discuss why we all require savings.

- i. **Savings help us to meet future requirements:** We need money in future for various purposes like spending money on higher education, on marriages and other celebrations, owning some immovable assets like house, land, farms etc. With savings at hand we, can meet all these expenses.
- ii. **Savings help us to meet expenses during emergencies:** There are events which are uncertain and may occur in future. All these events may require some amount of money to be spend, which we can have from our savings. For example, we may require money during emergencies like sudden illness, accidents, etc.
- iii. **Savings help us to raise our standard of living:** Savings accumulated over a period of time become a substantial amount, which enables us to buy something, which is better, comfortable or even luxurious. For example, you can buy a vehicle of your own, a home, good furniture, you can use generators/inverters at home to avoid power cut, etc. All these improve your standard of living.
- iv. **Savings help us to generate further income:** We can use our savings or part of it in buying shares, debentures or bonds, in buying property and renting it out or even in keeping money in a bank for a fixed period. All of these can give us an assured return in terms of dividend, rent or interest. This is an additional income for us.
- v. **Savings help the nation in its economic development:** When we keep our savings in a bank or in a post office, we get interest in return. But have you ever thought what they do

with our money? How do they generate more money from our savings? Actually they utilize our money for various productive purposes. For instance, banks may give our money to the business houses as loan and charge more interest from them. Similarly, government may use our savings in various industrial activities, by taking it from the post offices or banks. Thus, our savings help in development of business activities, which ultimately contributes to the overall economic development of the country.

28.8 Tips on Saving

We have learnt that savings are required for every individual. Let us learn some tips so that we shall be able to save.

- **Keep a record of your total income and its sources:** This is essential as you get to know when and how much you earn and to plan your expenditure accordingly.
- **Keep a record of your current expenditure:** As you know there are certain expenses which you have to incur regularly and the amount you spend is almost certain. For example, expenditure on food, tuition fee for children, electricity and water bill, expenses on newspaper, house rent, etc. These are your current expenditure. Once you know about these expenditures which you cannot avoid, you can plan for other expenses keeping current expenditure in mind.
- **Plan your expenditure:** There are certain expenses which do not occur regularly. For example buying a TV, refrigerator, washing machine, computer etc. To spend on these you have to make a priority list and then you can defer the expenditure, which is least important. For example, suppose you plan your expenditure on 25th December and fix your requirements as a refrigerator, a computer and a washing machine. You prioritised your requirements in the following order – washing machine, refrigerator, and computer. This is so because you find that a computer shall be most useful during the next academic session, a refrigerator shall be most useful during summer (next March) and washing machine is urgent as it is becoming difficult to wash cloth manually in winters. So naturally you will spend on the washing machine and defer your expenditure on the refrigerator for three months and the computer for six months.
- **Cut down your expenditure:** There are certain expenses which one may incur in an unplanned way. For example, suppose you have gone to Shimla on a tour in the month of March and got some winter clothes. You may use them at Shimla but coming back from Shimla you may not be requiring all those winter clothes. This sort of expenditure may be cut short.
- **Try to generate additional income and don't spend it.** This is a very good way of savings. Whatever we earn from a regular source we can spend it on our livelihood. But the extra earnings that we make from other sources can be kept aside for future use. For example, suppose one of your articles is published in the newspaper or magazine and you are paid some money for that. You can keep aside this money for future use.

Intext Questions 28.3

Fill in the blanks with appropriate words:

- (i) Money kept aside from current income for future use is called _____.
- (ii) Savings help us to raise our _____ and generate further _____.
- (iii) Savings facilitate _____ development of the nation.
- (iv) To save more money, it is important that we should keep a record of our total _____ and expenditure.
- (v) An individual can save money by planning and cutting down their _____.

28.9 Investment

We have already learnt that sometimes people spend some money on buying shares, bonds, properties etc. which give them some monetary return. Sometimes people also keep their savings or a part of it as a recurring or fixed deposit in the banks or post offices and earn interest on it. Similarly some people deposit their money in Mutual Funds, Public Provident Fund Account etc., some buy National Savings Certificates from the post office and some take Life Insurance Policies etc. All these give them some additional income. These types of expenditures are called investment. Thus, the term 'investment' refers to depositing or spending money on some items that generate additional income either immediately or in the future. For example, if you deposit money in Public Provident Fund Account it will give you some amount of return in the form of interest. So, this is your investment. Besides Public Provident Fund Account there are a number of other avenues in which you can invest your money. Let us learn the details about these avenues.

28.10 Where to Invest

Normally, every individual wants to generate some additional income through investment. But all investments do not give assured return. Most investments are risky. Let us learn about the various avenues of investment:

- **Deposits in Banks and Post Offices:** These are the most common, popular, risk free and trustworthy investments. In banks and post offices individuals deposit their money in savings account, where they can withdraw the money whenever required. They can also deposit money for a fixed period on one-time basis or a recurring basis. All these investments are safe and give an assured return.
- **Other Schemes/Certificates of Bank, Post Office:** Apart from deposits, the banks and post offices also offer various other schemes like Monthly Income Scheme, National Savings Scheme, Public Provident Fund, National Savings Certificates, Kissan Vikas Patra etc., which provides assured return and are risk free. Details have already been explained in lesson 13 i.e., Postal Services
- **Government Bonds:** Sometimes government and semi-government organizations accept

Avenues of Investment

- Deposits in Banks and Post Office.
- Other schemes/ Certificates of bank, Post Office
- Government Bonds
- Life Insurance policies
- UTI and other Mutual Funds schemes
- Corporate Securities and Deposits.
- Real estate
- Business Activities

deposits from individuals for a fixed period and promise to pay a fixed amount after the stipulated period. These are in the form of bonds, which are also risk free and provide assured return.

- **Life Insurance policies:** Post offices, Life Insurance Corporation of India and other private sector life insurance companies insure the life of individuals for a specific amount for a specified period upon payment of a premium amount. The individual who is insured gets a good return on maturity of the policies. This is a very important form of investment.
- **UTI and other mutual funds schemes:** There are some financial institutions (may be government, semi-government or private) which raise money from individuals and invest the collected amount in securities and deposits and thereby earn a good return. This return is then distributed among the investors as dividend. These types of investments are risky. It may give you very good return or it may also lead to losses.
- **Corporate securities and deposits:** There are companies which accept deposits from public for a fixed period. People can invest their savings in these companies. This is bit risky as your money goes into private hands. But if the company is good and a reputed one, you can get assured return. Similarly people sometime invest in buying shares of the company. If the company is performing well the shareholders get good return otherwise the shareholders may not get anything. These investments are again risky.
- **Real estate:** Sometimes people spend money on buying a plot of land, an apartment or a house etc., the value of which appreciates over a period of time. By giving it on rent they can earn money. These types of investments are less risky though they do not provide an assured return.
- **Business activities:** You must have observed that some people invest money to carry on various business activities. They may start the business individually i.e., in the form of sole proprietorship, or by inviting others to invest money with them i.e., they can start partnership form of business. By investing their money and putting their best effort then can get return in the form of profit.

28.11 Think Before Making an Investment

When you are investing money you must look into some factors to reduce the risk involved in investment. Analysing these factors you must decide where to invest.

- **Ability to save:** Some of the investments require regular contributions of certain amount of money like payment of LIC premium or installments in a recurring deposit. You must assess your ability to save before taking any decision.
- **Safety:** You must look into the various risks or drawbacks of the instruments where you are going to invest to ensure safety of your investments.
- **Easy Liquidity:** Any investment you make must be capable of being converted into cash whenever necessary.
- **Rate of Interest:** Rate of interest is more important than the amount of return you get.

Normally, for larger deposits, higher rates of interest are fixed.

- **Tax relief:** One must take into consideration the various tax benefits we can avail of through our investments.

Intext Questions 28.4

- A. State whether the following statements are true or false by writing 'T' against true statements and 'F' against false statements.
- The money spent on items that give a return in future is called expenditure.
 - People use money either from their income or their savings for the purpose of investment
 - Bank deposits don't give an assured return to investors.
 - Mutual fund schemes are risk free investments.
 - Spending money on buying a house is not a very risky investment but it does not give an assured return.
 - Life Insurance policies normally do not require regular contribution from investors.
 - Investment in shares of companies do not always give good return to shareholders and is risky.
 - Government bonds are a safe investment as they give fixed return to investors

28.12 What You Have Learnt

- Earnings of individuals through various occupations constitute their income.
- Individuals earn their income through various sources like – profits from business, salary/wages from employment, fee from profession, income from vocation, rent from property, interest on investments etc.
- Expenditure refers to spending of money on any item, which does not give any additional monetary income in return to the person who spends that amount.
- There are several avenues of expenditure like money spent on goods and services, on entertainments and celebrations, charity and donations, health and education etc.
- Savings constitute that part of income which is kept aside for future use.
- Saving helps individuals to meet their future requirements, raise their standard of living, meet their expenses during emergencies and also helps to generate further income. It also helps in national growth.
- In order to save money, we should keep a record of total income and its sources and our current expenditure. We should plan our expenditure and try to cut it down; try to have extra earning and not spend it.

- Investment refers to depositing or spending money on some items that generate additional income either immediately or in future.
- Individuals normally invest their money in various deposits and schemes of banks and post offices and other financial institutions, in corporate securities, in governments bonds, in real estate, in gold and jewellery, etc.
- A person, before investing, must look into certain aspects like his ability to save, the safety and liquidity, the rate of interest and other benefits associated with investments.

28.13 Terminal Exercise

1. How can we earn income through agriculture and owning property?
2. Give any six sources from which people earn their income.
3. How do professionals earn income?
4. Define expenditure? Give any three avenues of expenditure.
5. Explain any three areas where a person may incur expenditure.
6. Why is money spent on buying share of a company not called expenditure?
7. What is meant by Savings? Do you think it is required for us? Why?
8. Explain three reasons to support the need for saving by an individual.
9. As a student of Business Studies give some tips to your friend to enable him/her to save money?
10. Give at least six avenues available to us to invest our money.
11. Why are government bonds called risk free investment?
12. How does saving help us to generate further income and to raise our standard of living?
13. List any four factors we should keep in mind while deciding about where to invest our money?
14. Give an example to show how planning your expenditure can help your to save?
15. Name any four schemes offered by Banks and Post offices to invest money.

28.14 Key to Intext Questions

- 28.1 (a) - (iv), (b) - (vi), (c) - (i), (d) - (ii), (e) - (v), (f) - (iii)
- 28.2 (i) - Y, (ii) - N, (iii) - N, (iv) - Y, (v) - Y, (vi) - Y, (vii) - N, (viii) - N, (ix) - Y
- 28.3 (i) savings, (ii) standard of living; income, (iii) economic, (iv) income, (v) expenditure
- 28.4 (i) - F, (ii) - T, (iii) - F, (iv) - F, (v) - T, (vi) - F, (vii) - T, (viii) - T

Activity for You

- Suppose the total income of your family is Rs. 5,000/- in a particular month. Make a list of the various avenues of expenditure you will incur along with the amount for each. How much money will be kept aside as saving by your family?
- Kanika gets Rs. 60 as pocket money every month from her parents. She spends the entire amount on buying sweets and stationaries. What advice would you give her so that she will be able to save some of her pocket-money.