

HOW TO MAKE DECISIONS ABOUT MONEY

MODULE 2



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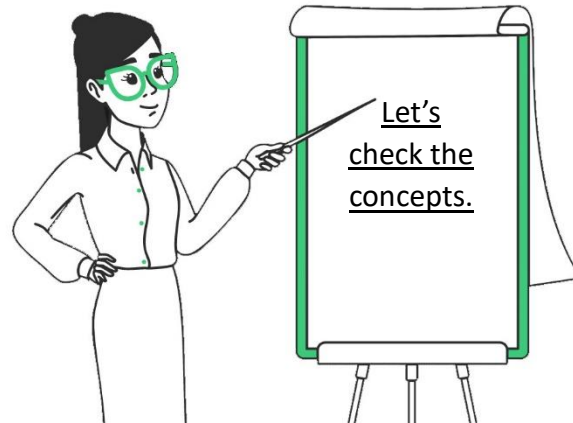
Topics In This Module

1. What is Money?
2. How is Money Created?
3. Why do We Need Money?
4. What are the Decisions About Money?
5. Why do We Have to Learn About Money?

Dear Learners,

Welcome to the second module of our Financial Literacy program. In this module, we will learn about How to Make Decisions about Money. Every day we make decisions about money and these decisions have positive or negative consequences. When we learn the financial concepts and decisions related to money, we can make smart decisions about money and increase our welfare.

1. In this module first, we will learn what money is. We will discuss its types and its role in the financial markets and we will learn what exchange rate means.
2. Then, we will find out how money is created and the role of Central Bank and commercial banks in money creation.
3. Later, we will discuss why we use money. To do that, we will focus on Needs and Wants.
4. After that, we will understand the decisions about money. We will learn some key concepts such as earning, spending (consumption), savings, investing, borrowing, debt and protecting
5. Finally, we will discuss why we have to learn about money. Learning about how to make decisions about money will help us use our money wisely and make better monetary decisions. When we make good decisions about money we will be able to reach our financial objectives in life. Also, we will have enough money and wealth for financial freedom.



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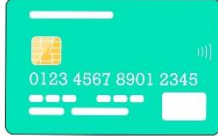




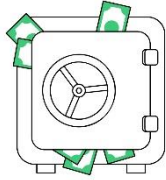
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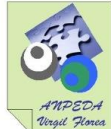


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To understand how to make decisions about money, we will learn the meanings of different financial concepts such as money, Central Bank and commercial banks, exchange rate, needs and wants, earning, spending (consumption), savings, investing, borrowing, debt and protecting our money.

Let's explain these concepts...

<p>Money</p> 	<p>Banks</p> 	<p>Exchange Rate</p> <table border="1"> <thead> <tr> <th colspan="2">EXCHANGE RATE</th> </tr> </thead> <tbody> <tr> <td>€ EUR/USD</td> <td>xxxxxx</td> </tr> <tr> <td>\$ GBP/USD</td> <td>xxxxxx</td> </tr> <tr> <td>₺ USD/TRY</td> <td>xxxxxx</td> </tr> <tr> <td>£ GBP/USD</td> <td>xxxxxx</td> </tr> </tbody> </table>	EXCHANGE RATE		€ EUR/USD	xxxxxx	\$ GBP/USD	xxxxxx	₺ USD/TRY	xxxxxx	£ GBP/USD	xxxxxx
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<p>Savings</p> 	<p>Investing</p> 	<p>Borrowing</p> 										
<p>Debt</p> 	<p>Protecting</p> 											



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What is Money?

Let's start with money.

Money is a special thing we use to buy things we want or need, like skateboard or food.

If we want to buy chocolate, we pay with money.

With money we easily buy and sell things.

There was a time when money did not exist, people used to change things (products) with things (products) Such a system of exchange of goods and services (products/things) for goods and services (products/things) without the use of money is called barter system.

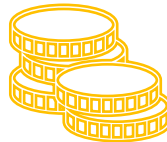
Imagine there was no money.

In barter system, if we want to buy a book from our friend, we would have to find something our friend wants in exchange. Maybe our friend wants a piece of chocolate. So, we have to find chocolate to get the book we want. But what if we don't have any chocolate?

It would be hard to get the book, right?

Types of Money

Types of Money we use today are: paper, metal (coins), or electronic (debit card).



Currency

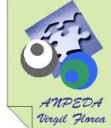
Currency is the physical form of money in the form of coins and paper money.

Each country typically has its own currency. In Türkiye, money is used in the form of Turkish currency known as 'Turkish Lira (TL). We give 3 TL when we buy water from the school canteen.

The currency of Romania is Leu. Euro is the currency used in a lot of European countries like Italy and Greece. In Italy and Greece, we use euros to buy goods or things.

An electronic debit card is a small, hard plastic card that we use to buy things. This card is directly linked to our bank account. When we use the debit card, we use our money in the bank.

Other types of money will be discussed in more detail in Module 4.



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Role of Money in the Financial Markets

There are two groups in the financial system: Lenders and borrowers of money.

Lenders are people who have a bunch of money. They have more money than they need. These people go to the banks and open deposit accounts.

There are also borrowers. These people do not have enough money to buy what they need or want like a house, tablet, or furniture. So, they go to the bank to take money.

Banks are financial institutions.

They act like a bridge between lenders and borrowers of money.

Let's explain how money is transferred from lenders to borrowers with the help of banks.

People with extra money take their money to the banks. They keep their money in the bank for a while. And then take it back together with an interest payment.

Let's imagine we have extra € 1000, we can go to a bank and put our money in our bank account. Then after a year the bank pays us € 1050. The extra € 50 is the interest payment we receive from the bank.

Why and how does the bank give us this extra € 50?

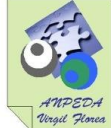
When we put our € 1000 in the bank, the bank gives this money to a borrower.

This € 1000 is a loan for the borrower.

The borrower repays the loan and the interest rate to the bank after a while. The borrower pays € 1100 to the bank. In this case € 100 is the interest payment.

The bank takes € 50 for its services and gives € 50 to us.

This example shows us the role of banks in the transfer of money from lenders to borrowers.



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What is the Exchange Rate?

Currency is the physical form of money in the form of coins and paper money.

Different countries use different types of currencies.

They use different names for their money.

For example, Turkish currency is called Turkish Lira, TL.

The currency of Romania is Leu.

Euro is the currency used in Italy and Greece.

Exchange rate is the value of one currency in terms of another.

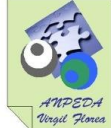
1 Euro is worth 30 TL. This is the exchange rate.

In Türkiye, when we go to a bank or an exchange office and give 10 euros, they give us 300 TL.

1 Leu is worth 6 TL.

1 Euro is worth 5 Leu.

EXCHANGE RATE	
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€ EUR/LEU	5,02321
lei LEU/EUR	0,2043
lei LEU/TRY	6,0342



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How is Money Created?

In Türkiye, Turkish Lira coins are issued by the Ministry of Treasury and Finance and paper money (cash) is printed by The Central Bank of the Republic of Turkey (CBRT). When the Central Bank prints money it does a lot of things to make it difficult to copy. Even though it is called as paper money it is not made of the same kind of paper we write on. If it were it would be easier to copy. Also, it would not last very long. For example, in Türkiye paper money is made from 100 % cotton fiber. The paper money is printed using special colored ink. This paper does not fluoresce under UV light.

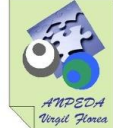
The National Bank of Romania prints paper money and coins in Romania. The paper money is made of polymer. The money includes special characteristics such as watermarks and holograms. We can see a black thread when we hold up the money to light.

In Italy, The Bank of Italy and in Greece, Bank of Greece issues euro banknotes and coins.

Euro banknotes are made of pure cotton fiber. This material increases the durability of paper money. Euro banknotes contain complex security measures such as watermarks and invisible ink characteristics.



BANK OF GREECE
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Decisions About Money

Every day we make decisions about money. If we know the key concepts, we can make better decisions and increase our well-being. These concepts are: Earning, Spending (consumption), Savings, Investing, Borrowing, Debt and Protecting

Let's learn them one by one.

Earning Money

There are lots of ways that we can earn money. We call it making money.

Many people earn money by working.

For example, our teachers work in a school and teach English, history and so on to earn money. Money they receive from the school is their income.

Some people sell goods to earn (make) money. For example, toy shop owners sell toys to earn money. This is their income.

Some people provide services to make money. For example, the hairdressers cut our hair. And we pay the hairdresser some money for this service. This is their income.

We can get pocket money from our parents. Let's say that our parents give us €10 every week, this is our weekly income.

This topic is discussed in more detail in Module3.

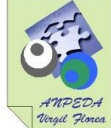
What is Spending?

We use (spend) the money we earn to buy the things we need or want.

What is a need? A need is something we must have to survive like food, shelter, and clothing. We have to drink water to survive so water is a need.

A want is something that is nice/fun to have but we can live without it. It would be nice to buy an ice cream and eat it, but ice cream is not necessary for us to survive, we can live without an ice cream. So, ice cream is a want.

We do not have unlimited money, so we have to make choices. We usually buy things we need before we buy what we want. For example, we should first buy a healthy lunch and then see if we have enough money left over for the dessert. Knowing the difference between needs and wants can help us be more responsible with our money.



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What is Savings?

Sometimes we have to decide about whether to spend our money now or keep it for the future.

The income that is left after our spending is our saving.

Let's say that our weekly income is €10. We spent €8 to buy lunch. And €2 is left.

We can spend it to buy a small toy we want right now, or we can put €2 into our penny bank (saving jar) for 3 weeks and save €6 and buy a bigger toy that we want.

We can save our money in our penny bank at home, or we can open a savings account at a bank.

When our money is in the bank, we can earn a little extra money. This is called interest.



What is Investing?

Let's say that we have €40 pocket money for each week. Let's say we spend €30 of it and save €10 in our penny bank. We can save €120 in a year.

If we do not prefer to spend our €120 right away and if we want our money to grow, we can take action. For example, we can buy a toy today for €120 and sell it for €130 on the internet. This action is called investment since we grow our money from €120 to €130s.



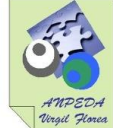
How Will We Know How Much to Spend, Save, and Invest?

How will we know how much to spend, save, and invest?

To have financial independence we have to learn how to manage our money. A budget is a very useful plan for managing our money. First, we write down our income (money we earn or receive) Then we write down our expenses (the money we spend) Then we see what is left for saving and investment.

Creating a budget helps us live within our means. A budget can save us from spending the money we do not have. We should spend our money wisely. We should always think about if we really need or want that thing.

There are some rules to use our money. For example, the 50-30-20 rule. It says we should spend 50% of our money to needs, 30% to wants, and 20% to savings. A budget can help us create our own rule for managing our money. We can think about our needs and wants and



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then we can save the rest. We should start saving our money at an early age to be financially independent in the future.

The best time to start saving and investing is now!

We will learn more about this issue in Module 5.



What is Debt?

If we spend more money than we have then, we go into debt. Debt is the money we borrow from someone else that must be paid back.

Let's imagine that our weekly income is €10. We want to buy a skateboard for €50.

We can find the extra €40 from our friend. This €40 is our debt and we must pay it back to our friend in 4 months. While paying our debt back we give the money we borrowed plus a little extra money called interest to our friend. Let's say we pay €45 back. The extra €5 is the interest. If we do not have enough money to pay back our debt, we can do 2 things. We can sell our skateboard and give the money we receive to our friend. We can give our skateboard to our friend. So, if we cannot pay back our debt, we lose our skateboard.



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Protecting Our Money

How are we going to protect our money?

To protect ourselves from financial losses we can buy insurance.

Imagine we save 1000 euros in our piggy bank to buy a new iPad. If our iPad is stolen the insurance company gives us 1000 euros to buy a new iPad. So, we protect ourselves from theft by having insurance.

Or our parents might have insurance for our car. If someone hits our car, our car gets damaged. We have to take it to the repair shop. We make a payment to the repairman. If we have insurance, we do not pay the repairman, the insurance company pays for our car. Buying insurance for our cars protects us from additional spending we have to make because of accidents.

We can also protect our money by putting it into a bank account.

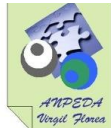
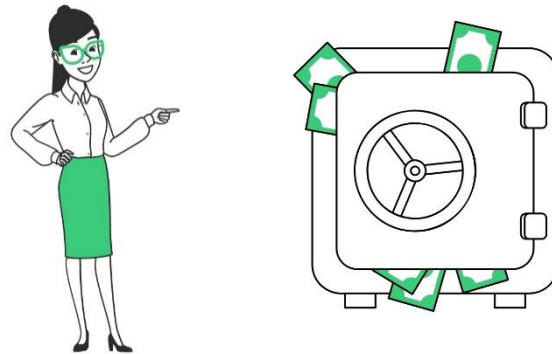
If the price of everything increases in our country, our money loses value if we keep it in our piggy bank.

Now, let's imagine we saved 1000 euros in our piggy bank.

Let's say that the price of an iPad is 1000 euros today. If we go to a store, we can buy an iPad with our 1000 euros.

Let's say we want a pink iPad and the seller says the pink iPad will be available after two months. So, we decide to buy it two months later because we want a pink iPad. Then since the prices are increasing in our country constantly, we will see that the price of iPad is 1020 euros after two months. So, we will not be able to buy an iPad with our 1000 euros. This increase in the price of iPad is inflation. Inflation means the increase in the price of what we want to buy.

How can we protect our money in this scenario? When we save 1000 euros we can go to a bank and open a savings account. After two months the bank gives us 1020 euros. It is great because the price of iPad is also 1020 euros now. And we can buy it.



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What Did We Learn?

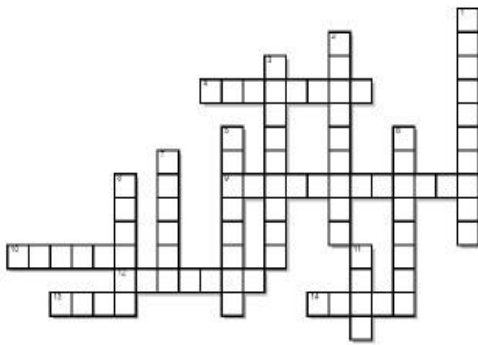
- **MONEY AND DECISIONS ABOUT MONEY**
- **FINANCIAL CONCEPTS**
- **FINANCIAL FREEDOM**



Every day we make decisions about money. We receive money, buy things, and spend money. We save some of our money. We are the ones who are responsible for these decisions. Also, we are the ones who experience the results. That's why knowing the basics of managing our money is important. In this module we learned basic financial concepts like money, earning money, spending, saving, investment, borrowing, debt and protecting our money.

Let's solve the crossword puzzle.

How to Make Decisions about Money Crossword



Words:

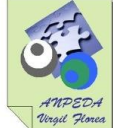
- Barter
- Budget
- Currency
- Electronic debit card
- Debt
- Earning
- Exchange Rate
- Insurance
- Interest
- Investment
- Money
- Saving
- Spending

ACROSS

- The extra money we get if we put our money in a bank
- Value of one currency in terms of another.
- The money that is left after our spending
- Making money.
- The money we borrow from someone else that must be repaid.
- A special thing we use to buy things we want or need

DOWN

- An action that grows our money
- Protects our money in case of theft or accidents.
- A small, hard plastic card that we use to buy things.
- Using our money to buy the things we need or want.
- Physical form of money in the form of coins and paper money.
- Exchanging goods for goods without the use of money.
- A plan for managing our money.
- A bridge between lenders and borrowers of money.



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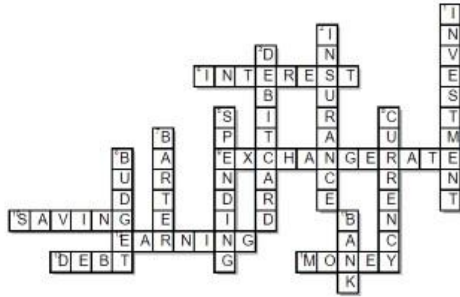
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- These are the answers. How did we do?

How to Make Decisions about Money Crossword



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- The extra money we get if we put our money in a bank
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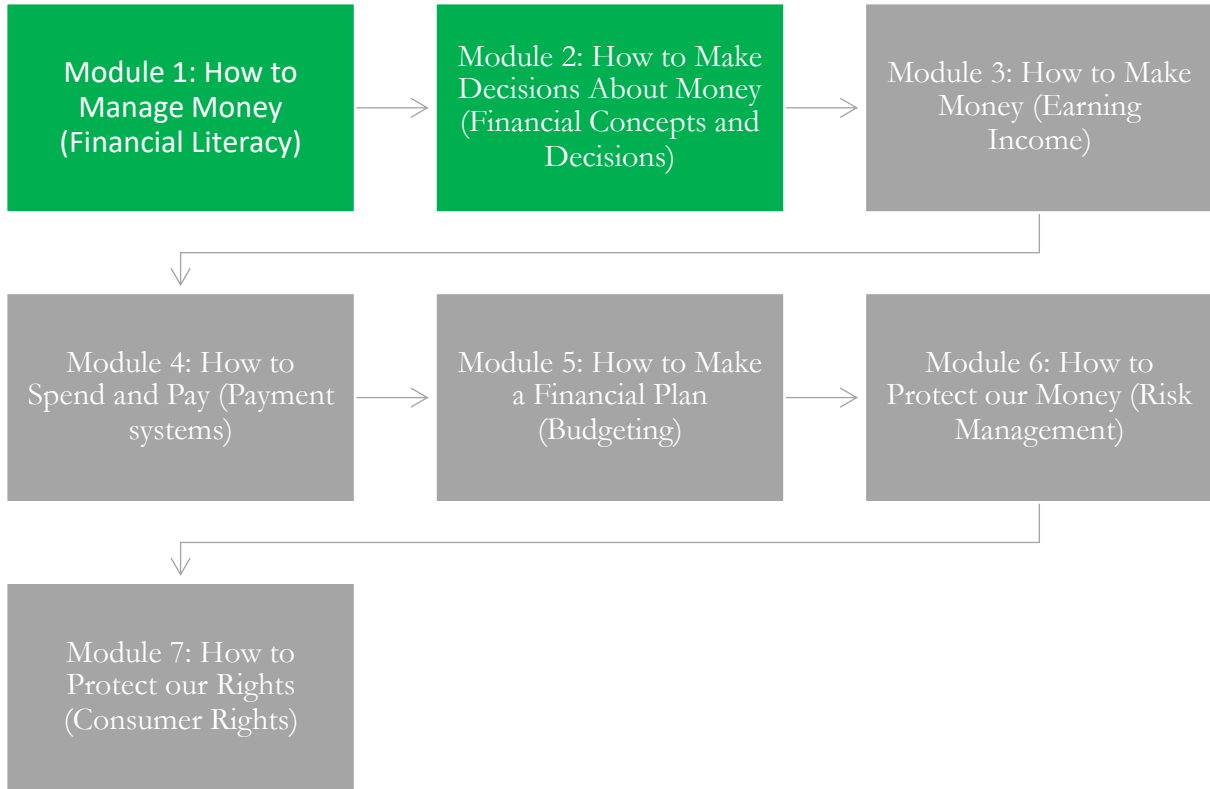


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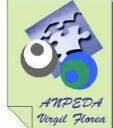


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Congratulations – Module 2 ✓



- The concepts of financial literacy and their applications to our lives are discussed in detail in the different modules of the program.
- Congratulations we have completed module 2 where we discussed how to make decisions about money.



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