

HOW TO MAKE MONEY

MODULE 3



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Topics In This Module

1. What is Income?
2. Types of Income
3. Types of Investment
4. Income Tax
5. Career Planning

Dear learners,

Welcome to the third module of the Financial Literacy program. The objective of this module is to explore different ways to make money. We all need money to buy food, to pay for our rent, and to fulfill our needs and wants. Hence, we should learn how to make money, in other words, earn income.

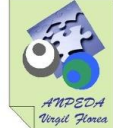
In Module 3, we will start with learning what income is and its types. Then we will talk about how to make money, in other words, earn income.

We will learn about different investment types. Then, we will learn what income tax is. We will discuss the difference between gross income and net income. Finally, we will talk about how we can increase our earning potential.



In order to understand how we can make money, we will learn definitions of some financial concepts such as income, active income, passive income, salary, wage, self-employment income, investment income, interest, dividend income, rental income, income tax, gross income, and net income.

Let's explain these concepts....



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Income



Active Income



Passive Income



Salary



Wage



Self-Employment Income



Investment Income



Interest



Dividend Income



Rental Income



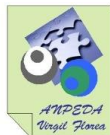
Income Tax



Gross Income



Net Income



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What is Income?

Income is the amount of money that a person receives in exchange for providing labor, selling a good or service, or investing money.

Income can be in different forms such as salary, wage, self-employment income, interest, investment income, or rental income.

For example, a postal worker delivers some mail to earn money. The money a postal worker receives in exchange for delivering mail is their income.

Some people sell goods to earn money. For example, a bakery owner sells pastry and earns money. This is their income.

Some people provide services to make money. For example, a gardener plants flowers in our garden and helps us to maintain our garden. And we pay the gardener some money for this service. This is their income.

We can work in a restaurant as waitstaff and earn money. This is our income.

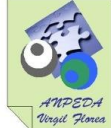
Types of Income

There are two types of income based on how we make Money.

ACTIVE INCOME is the money we earn in exchange for our effort and labor.



PASSIVE INCOME is the money generated without requiring active work at the time income is generated.



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Ways of Making Money

There are several ways to make money. Let's start by explaining how we earn active income.

We can be employed by others and receive a salary or wage. We can also be self-employed and run a business.

One of the most common ways to make money is having a job and receiving a salary or wage. For example, a teacher works at a school and receives a SALARY at the end of each month. Bankers, police officers, and public servants earn a salary.

A part-time salesperson in a shop earning money on an hourly basis receives a WAGE. Wage is directly related to the number of hours worked.

It is also possible to earn money by running a business. For example, if you have a grocery store, you sell fruits and vegetables and make money. It is called SELF-EMPLOYMENT INCOME.

SALARY, WAGE and SELF-EMPLOYMENT INCOME are examples of active income.

Another way to make money is investing which provides passive income named INVESTMENT INCOME.

Let's discuss this in more detail.

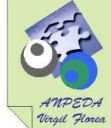


What is an investment?

First, let's remember what investment was. Investment means buying an asset that will provide income in the future.

As explained in Module 2, Let's say we have €40 pocket money each week. Let's say we spend €30 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 Bitcoin for €120 and sell it later for €130. This action is called investment since we grow our money from €120 to €130. In this case, Bitcoin is an asset which gains value over time and provides investment income to us. The investment income is €10.



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Investing enables your money to grow. However, investing has some risks. Bitcoin could lose its value over time. For example, we may end up selling Bitcoin for €80 and lose €40. This would be our investment loss.

When making an investment, we should be aware that we are taking risks. This means that our expectations to grow our money may not be realized.

We will learn in detail what the risk is and how we can manage it in module 6.



Different Ways to Make an Investment

Through investment we can earn different types of income named **INVESTMENT INCOME**.

The first type of investment income is capital gain. It creates one time income through selling an asset at a higher price than its purchase price. As explained in the previous example, the value of the Bitcoin increased from €120 to €130 providing €10 capital gain when we sold it. Assume we buy a stock for €100 and sell it for €125. We have €25 **CAPITAL GAIN**.

Interest income, dividend income, and rental income are other types of investment income.

If we deposit our money in a savings account at a bank, we receive interest after a specific period. Let's say the savings account offers 10% annual interest. If we deposit €1000 in this account, we will earn €100 **INTEREST INCOME**.

We can invest in a company by buying its stocks. When we buy the stock of a company, we become one of the owners of the company. The owners are also called stockholders. Let's assume we buy 10 shares of a smart phone company and become a stockholder of this company. When the company pays money to its stockholders at the end of the year, this payment will be our **DIVIDEND INCOME**.

Renting an asset is another way of earning investment income. If our family has a second house, they can rent this house in exchange for monthly rent. This will be our family's **RENTAL INCOME**.



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How to Choose the Right Investments?

Choosing the right investment is like deciding what to do with our money.

We can start making investments at any age and any income level. We should decide why we want to invest. The answer to this question will determine our investment time frame. We can invest in short-term or long-term based on our goal.

As we already talked about, there are different ways to invest our money. Some investments might grow faster, but they could also have more risks which means we might not always get all our money back. Like investing in Bitcoin. Other investments might grow slower, but they're safer which means they are less risky. Like depositing in a savings account.



What is Income Tax?

When we earn money, we have to pay a percentage of our earnings to the government. This payment is called income tax.

The percentage of our income paid as tax is the income tax rate. This rate changes depending on the type of income, amount of income and country.

Gross income is the amount before tax is paid.

Net income is the amount that we receive after tax is paid.

Let's assume our income is €10,000 per year. If the income tax rate is 10%, we pay €1,000 to the government. In this case, our gross income is €10,000 and our net income is €9,000.



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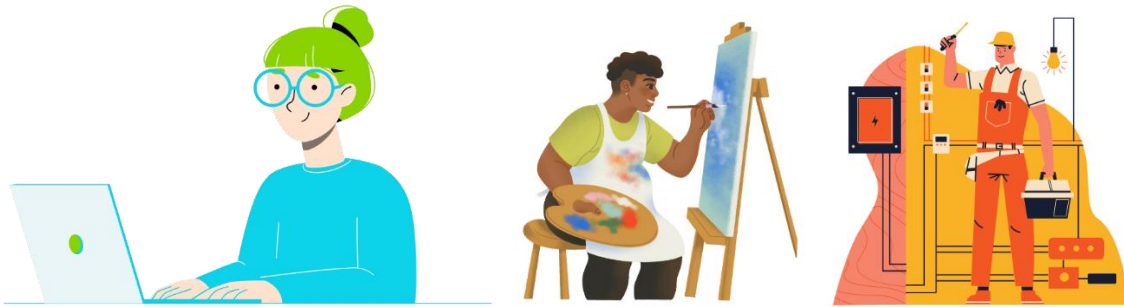
Career Planning

Career planning is the first step of building a strong career. It takes time and requires consistent effort. Career planning begins with knowing what activities we enjoy doing and what we are good at. It involves understanding our interests, skills, and strengths.

For example, If we like drawing, painting, or graphic design, we might enjoy a career as a graphic designer or illustrator. If we enjoy fixing things, a career as an electrician, mechanic, or IT technician might be a good fit. If we are interested in health and wellness, jobs in fitness training, nutrition, or physical therapy could be a good fit.

The person who starts and runs a business is called an entrepreneur. If we have an entrepreneurial side, we can start by establishing a small business or offering freelance services online. This can help us develop business and financial management skills. If we want to be an entrepreneur, we should remember that we bear some risks. Sometimes, our business may not go well, and we may have some losses.

We should believe in ourselves and our abilities; with careful career planning and working towards it, we can achieve our career goals and succeed in our chosen field.



Increasing Our Earning Potential

There are several effective ways to increase our earning potential for our career.

We can focus on education and consider getting higher education, such as a university degree or vocational training. Also, we can develop our skills such as programming, digital marketing, graphic design, writing, or other specialized skills by taking necessary courses.

As a teenager, we can look for a part-time job or internship in the fields we are interested in. We can earn money and at the same time we can learn valuable skills for our future work life. We also might build a network of professionals providing us with guidance, advice, and potential job opportunities through these part-time jobs and internships.

Being financially literate will also help us make wise decisions about our money which may increase our earning potential.

All of these efforts serve to build a strong foundation for our career.



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What Did We Learn?

- **HOW TO MAKE MONEY**
- **CONCEPTS RELATED TO MAKING MONEY**
- **INCREASING EARNING POTENTIAL**



Making money involves earning through jobs, businesses, or investments. We can earn active income by working at a job or running a business. In order to earn passive income, we should understand what investment is and which type best fits our financial goals. In this module, we have learned what income is and its types, what an investment is, and its types. In addition, we talked about increasing our earning potential through careful career planning.

Let's solve the crossword puzzle.

How to Make Money Crossword

Words:

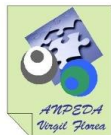
- Income
- Active Income
- Passive Income
- Salary
- Wage
- Self-Employment Income
- Investment Income

ACROSS

- The amount of income before tax is paid.
- The money generated without requiring active work at the time income is generated.
- The money earned in exchange for keeping our money in a savings account.
- The money we earn in exchange for our effort and labor.
- The money earned when we run our own business.
- The money we earn for renting an asset.

DOWN

- The money earned from an investment.
- The amount of money that a person receives in exchange for providing labor, selling a good or service, or investing money.
- The amount of money that we have to pay to the government on our earnings.
- The money we receive from a company for being its stockholder.
- A fixed payment earned on a monthly basis.
- A fixed payment earned for providing work or services typically on an hourly basis.
- The amount of income that we receive after tax is paid.



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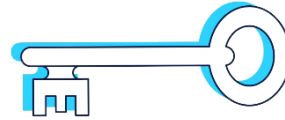


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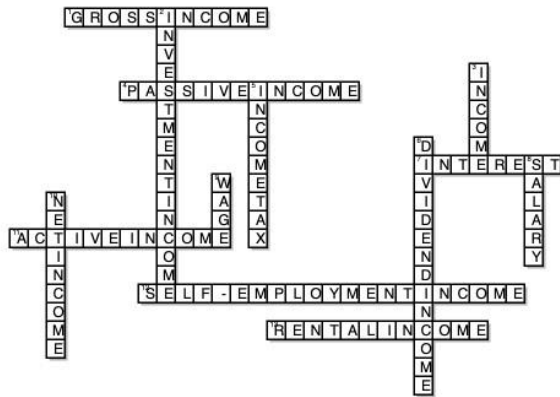


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- These are the answers. How did we do?



How to Make Money Crossword

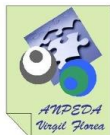
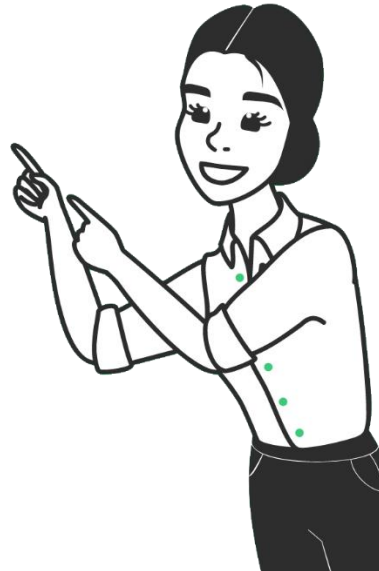


ACROSS

- 1 The amount of income before tax is paid.
- 4 The money generated without requiring active work at the time income is generated.
- 7 The money earned in exchange for keeping our money in a savings account.
- 11 The money we earn in exchange for our effort and labor.
- 12 The money earned when we run our own business.
- 13 The money we earn for renting an asset.

DOWN

- 2 The money earned from an investment.
- 3 The amount of money that a person receives in exchange for providing labor, selling a good or service, or investing money.
- 5 The amount of money that we have to pay to the government on our earnings.
- 6 The money we receive from a company for being its stockholder.
- 8 A fixed payment earned on a monthly basis.
- 9 A fixed payment earned for providing work or services typically on an hourly basis.
- 10 The amount of income that we receive after tax is paid.



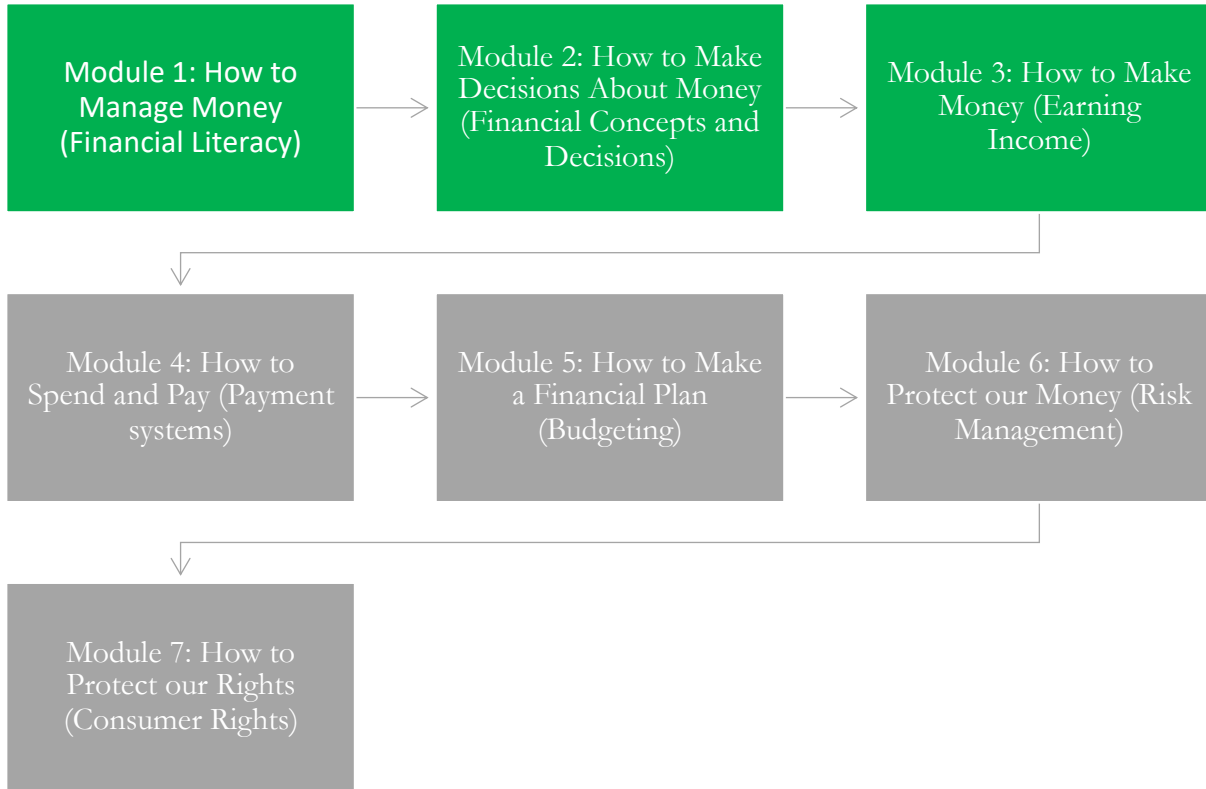
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Congratulations – Module 3 ✓



- Congratulations we have completed module 3 where we discussed how to make Money.



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