Chapter 5

Managing Your Personal Finances



The Big Questions

1. *What is personal finance and why is it important for individuals?*
2. *What are the pillars of personal finance?*
3. *What are some common savings and investment options?*
4. *How can you protect your savings and assets?*
5. *What is income tax?*

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Have you ever received pocket money or money from relatives during festivals or special occasions? Think about how you usually use that money.

- Do you spend it immediately or save some of it?
- Do you keep your savings in a piggy bank *(gullak)* or somewhere else?
- How do you manage expenses, such as travelling to school, buying stationery, or occasionally purchasing food from the school canteen?
- Have you ever planned your spending to save for something you wanted later, like visiting your grandparents during summer break?



Fig. 5.1. Savings in a piggy bank

Our journey into managing money begins in childhood. As we grow into adulthood, we earn income, and spend it in many ways to fulfil our needs and wants. We also save money and make investments to achieve goals, such as buying a house or funding higher education.

Individuals and households in today's world have to make many decisions involving money. Money is, therefore, an important resource that should be utilised efficiently. This is where an understanding of personal finance becomes important. Personal finance refers to the planning and management of an individual's money to meet their needs and wants. It involves making smart financial decisions, such as how much to spend, how much to save,

where to invest, and how to prepare for future financial needs. For instance, if someone wants to buy a house in the next five years, in order to achieve this goal, they will have to plan and manage their money well.

Pillars of Personal Finance



Income
The money you receive (salary, business income, etc.).

Budgeting
Deciding how much to save, how much to spend, and how one spends that money on needs and wants.

Saving
Setting aside money for future needs or emergencies.

Investing
Deploying your savings in assets like stocks, mutual funds, etc.

Protection and risk management
Safeguarding your money and assets through insurance and debt management.

Fig. 5.2. Pillars of personal finance

Income (Earnings)

Income is the money a person receives regularly or occasionally in return for products sold or services rendered. It is the starting point of personal finance because without income, it is not possible to spend, save, or invest. For example:

- A teacher earns a monthly salary.
- A shopkeeper earns profits from a business.
- A person earns rent from letting out property.
- An investor earns interest from bank deposits.
- A shareholder receives dividends and interest from securities.

THINK ABOUT IT

- Have you ever thought about earning your own money? What kind of skill would you require and which work would you choose?
- There are many 'Earn While You Learn' programmes that allow college students to continue their education while earning an income through part-time work, internships, or apprenticeships. This not only provides financial support but also helps them gain practical skills, work experience, and a better understanding of the real-world workplace.



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Budgeting (Planning Expenses)

Budgeting means planning in advance how income will be spent. A **budget** is a written plan that aims to balance income and expenses. People often plan to save and make financial decisions with a specific purpose in mind to be achieved in future. For example, a family may decide how much money to save each month or spend monthly on food, rent, school fees, transport, etc. Other examples include:

- Saving for a school trip next month.
- Buying sports equipment after six months.
- Saving for higher education in the future.
- Setting aside money for emergencies.

Setting such financial goals helps people prioritise their needs and make careful decisions regarding spending, saving, and investing.

One simple way to set goals is to ask:

- What do I want to achieve?
- How much money will I need?
- By when do I want to achieve it?
- What steps can help me reach this goal?

Budgeting helps control unnecessary spending, such as excessive eating out or impulse shopping, and enables people to prioritise important expenses. It also helps people live within their means by balancing income and expenditure.

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THINK ABOUT IT

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?



LET'S EXPLORE

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



Steps in Budgeting

1) Identify your expenses

Begin by listing all your monthly expenses, both large and small. This helps you understand where your money is being spent.

2) Set a savings goal

Decide how much you want to save, what you are saving for, and by when you need to have it saved up. A clear goal makes saving easier. For example, to save ₹3,000 in six months for a new bicycle, you would need to save ₹500 each month.

3) Track your spending

Regularly compare your actual spending with your budget. This helps you identify areas where you may be overspending and make corrections if needed.

4) Review and adjust your budget

A budget should be reviewed periodically to reflect changes in income, expenses, or financial goals. For example, rising transport costs or unexpected medical expenses may require adjustments to the budget. Regular reviews keep the budget realistic and effective.

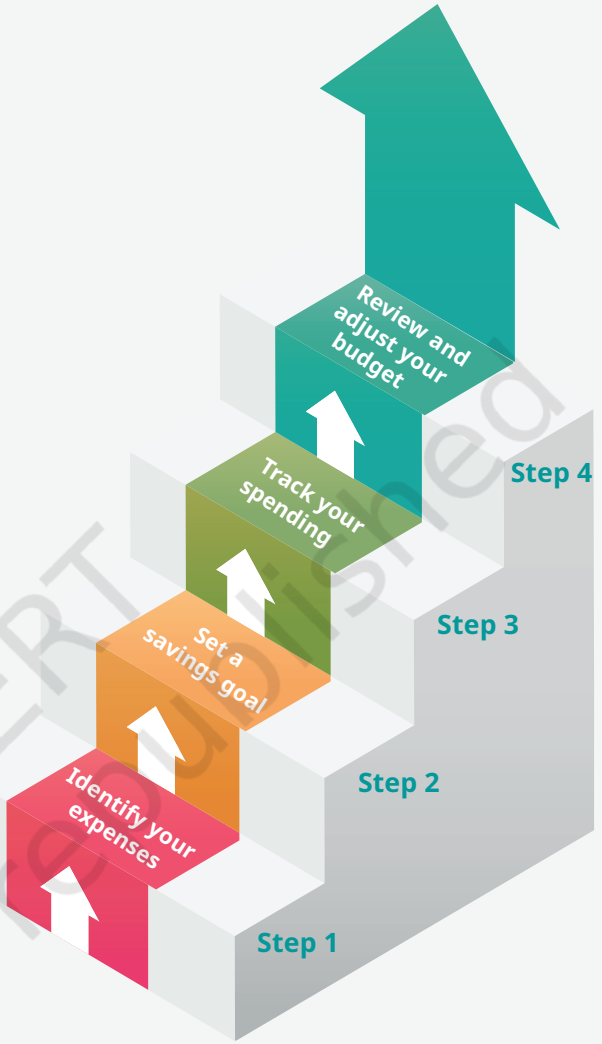


Fig. 5.3. Steps in budgeting

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Saving

Saving means keeping aside a part of one's income for future use and represents a financial surplus accumulated over time. Savings are important for comfortable living, and because life is uncertain and emergencies can arise at any time. People also save to make future investments in assets, such as fixed deposits, stocks, mutual funds, and real estate.

THINK ABOUT IT

- 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?



Investing (Growing Wealth)

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?

Investing means putting your savings into assets with the aim of protecting their value and generating returns. It is like planting a mango tree—you do not get fruit immediately, but once you do, it continues to provide fruit for many years. While keeping savings in cash provides greater **liquidity**, investing helps increase wealth and protects the value of money. It also allows money to grow faster than the rate of **inflation**. For example, if a school bag costs ₹1,000 today, and inflation is 6% per year, the same bag may cost about ₹1,060 next year. If your money is simply kept at home and does not grow, you may not be able to buy the bag as your **purchasing power** will fall over time.

Do you remember the story of the king and the sage from the Grade 7 Chapter 'Banks and the Magic of Finance'? It explained the principle of compounding, where returns are earned not only on the original

Liquidity: Refers to how quickly and easily an asset can be converted into cash or cash equivalent without affecting its value.

Inflation: The increase in the prices of goods and services over time, which reduces the purchasing power of money. As prices rise, the same amount of money can buy fewer goods and services than before.

Purchasing power: The real-world value of money, measured by the quantity of goods and services a single unit of currency can buy. It determines your standard of living, as higher purchasing power means you get more goods and services with the same amount of money, while a decrease means you can afford less with the same amount of cash.

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investment (the principal) but also on the returns already earned, thereby accumulating high returns over time. Let us understand this again with an example.

Compounding: The process where an investment's earnings, such as interest or dividends, are reinvested to generate their own additional earnings over time.

Power of Early Investments

Suppose two people, Bhavisha and Dhruv, each save ₹1,000 at the end of every year and earn 7% annual interest. The only difference is that Bhavisha starts saving at the age of 25, while Dhruv begins at the age of 35. Although both save the same amount each year, but since Dhruv invested much later, by the age of 65, he accumulates only about 40% as much money as Bhavisha. This happens because **compounding** allows earlier investments to earn returns for a longer period, and those returns continue to generate additional returns over time.

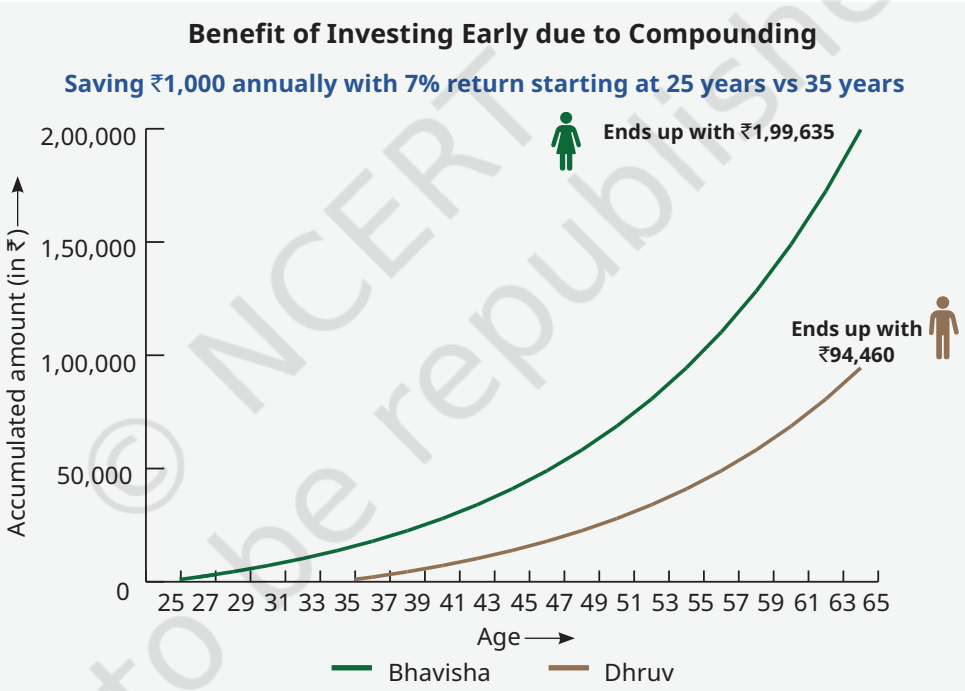


Fig. 5.4. Power of compounding

LET'S EXPLORE

→ In Fig. 5.4 above, the curves are flatter in the beginning and tend to become steeper in the later years. Why do you think that happens?

→ Talk to your parents and find out the fixed deposit rates of their bank. You can also refer to the bank's website.



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But where can one invest? Let us explore some common investment options.

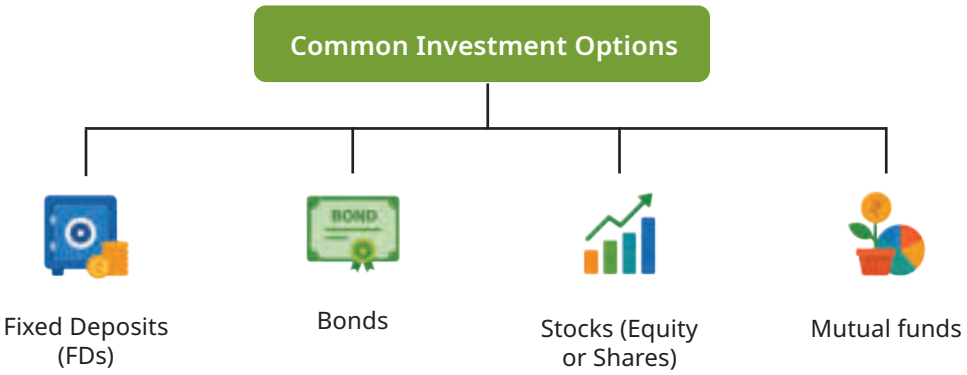


Fig. 5.5. Common investment options

a) Fixed Deposits (FDs)

Fixed deposits are among the most common and safest investment options offered by banks and post offices. In a fixed deposit, a person deposits a lump sum amount for a fixed period, such as one, three, or five years. During this period, the bank or post office pays a fixed rate of interest on this amount, which remains unchanged throughout the investment period. Fixed deposits offer assured returns and are suitable for people who prefer safety over high returns.

Other government-backed investment options include the Public Provident Fund (PPF) and small savings schemes, such as the National Savings Certificate (NSC) and the Sukanya Samriddhi Yojana. These schemes encourage long-term savings while providing safe and reasonable returns.

b) Bonds

Bonds are investments through which people lend money to the government or companies (issuers of bonds) for a fixed period. Bondholders earn regular interest. For example, if you buy a bond worth ₹10,000 that pays 5% interest per year, you will receive ₹500 as interest after one year. If the bond matures after one year, you will receive ₹10,500 in total. In reality, the **maturity period** ranges from 1 day to 30 years or more. You may also be able to sell the bond before maturity if you need the money earlier, making them more liquid. Government bonds are generally considered safer than **corporate bonds** and are suitable for those seeking a stable, predictable income.

Maturity period: The duration between its issue date and the point at which the issuer repays the principal amount.

Corporate bonds: Debt securities issued by companies to raise capital from investors. When you buy a corporate bond, you lend money to the company. In return, the company promises regular interest payments and to repay the initial principal amount when the bond matures.

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BSE SENSEX: The BSE SENSEX (Stock Exchange Sensitive Index) is the benchmark index of the Bombay Stock Exchange (BSE). It tracks the performance of 30 large, financially sound, and actively traded companies from different sectors of the economy and serves as an important indicator of the overall performance of the Indian stock market.

c) Stocks (Equity or Shares)

Shares represent ownership in a company. When a person buys shares, they become a part-owner of that company and may earn returns through dividends as well as an increase in the share price. Investing in shares involves higher risk because share prices fluctuate due to market conditions, company performance, and broader economic changes. However, shares also have the potential to generate higher returns over the long term. They are, therefore, suitable for investors who are willing to take greater risks for higher returns and who invest keeping the long term in mind.

LET'S ANALYSE

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.

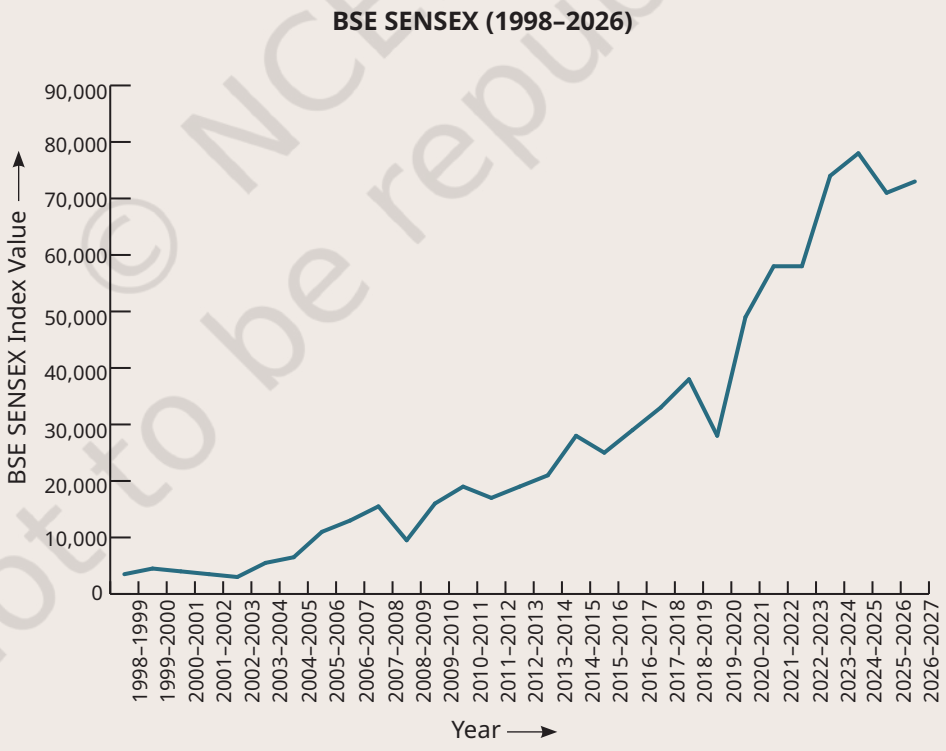


Fig. 5.6. BSE SENSEX over the years

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d) Mutual funds

Mutual funds pool money from many investors and invest it in a basket of shares, bonds, or other financial assets. These investments are managed by professional fund managers who decide where to invest the money. If the investments perform well, investors earn returns in proportion to the amount they have invested. However, if the investments perform poorly, investors may incur losses.

Mutual funds are popular because they reduce risk by spreading investments across different types of assets, a strategy known as **portfolio diversification.** They are suitable for people who may not have the time, knowledge, or experience to manage investments on their own.

THINK ABOUT IT

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?



Protection and Risk Management

Life is full of uncertainties, such as illness, accidents, loss of income, or damage to property. These unexpected events can lead to significant financial losses. Therefore, an important aspect of personal finance is protection—safeguarding your income, savings, and assets against such risks.

Insurance

One of the most effective ways to achieve financial protection is through insurance. Insurance is a legal contract in which an individual pays a regular amount, called a premium, to an insurance company. In return, the company agrees to provide financial compensation for specific losses or expenses covered under the policy. For example, a family may pay ₹500 every month for health insurance. If a family member requires medical treatment, the insurance company covers a large part of the hospital expenses. Without insurance, the family might have to use a substantial portion of its savings for the expenses incurred towards the treatment.

Insurance works on the principle of risk sharing. Many people pay premiums into a common pool. In case of any unexpected loss,

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those insured receive financial support from the insurance company. Therefore, insurance provides financial security during emergencies, reduces the impact of accidents, illness, or property damage, helps families recover from financial setbacks, and encourages people to save and plan their finances through regular premium payments.

Types of Insurance

a) Health Insurance

Health insurance helps cover medical expenses, such as hospitalisation, medicines, diagnostic tests, and treatments. It reduces the financial burden of illness or accidents and allows families to focus on recovery rather than worrying about medical costs. In India, government schemes such as Ayushman Bharat Pradhan Mantri Jan Arogya Yojana provide health insurance coverage to eligible low-income households.

b) Life Insurance

Life insurance provides financial support to a family if the policyholder, who may be the breadwinner of the family, passes away. It helps dependents meet daily expenses, continue children's education, and repay loans. Life insurance is an important tool for ensuring long-term financial security.

c) General Insurance

General insurance protects against losses related to vehicles, homes, businesses, and other property. For example:

- Motor insurance covers repair costs and damages caused by vehicle accidents.
- Property insurance protects homes and businesses against losses caused by fire, theft, flood, earthquake, and other disasters.
- Crop insurance protects farmers from financial losses as it covers damages caused by natural disasters, pests, and market price changes.
- Cattle insurance protects farmers and dairy owners against financial loss in case of death or disability of their animals.



Fig. 5.7. A person applying for a loan in a bank

Borrowing and Credit

Sometimes, people may need to borrow money from banks, relatives, or other sources as loans. Borrowing or using credit can be helpful when it is used for productive purposes, but it can become harmful if misused. For instance, an education loan can help a student pursue higher education, whereas borrowing money to purchase

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unnecessary consumer goods may lead to a **debt** burden and financial difficulties. Thus, responsible borrowing involves taking loans only when necessary and ensuring that they can be repaid on time.

Debt: Amount of money owed to somebody.

THINK ABOUT IT

Have you ever heard your parents say, "This month's EMI has been paid"? An EMI (equated monthly instalment) is the fixed amount of money a person pays every month to repay a loan.

Suppose a family buys a refrigerator costing ₹30,000 but does not want to pay the entire amount at once. In such a case, they may take a loan and repay it through an EMI of ₹3,000 every month for 12 months. Each EMI includes a portion of the original loan amount (the principal) as well as the interest charged by the lender. EMIs are commonly used to purchase mobile phones, household appliances, two-wheelers, homes, and cars.



- 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?

Risk and Return

When deciding where to invest money, it is important to consider four factors—**risk, return, time horizon, and liquidity**.

Risk



Risk refers to the chance of losing money.

Return



Return is the profit earned from an investment.

Time horizon



Time horizon is the length of time for which money can remain invested.

Liquidity



Liquidity refers to how easily an asset can be converted into cash when needed.

Fig. 5.8. Factors to consider before investment decision

Different investment options have different levels of these factors. For example, fixed deposits (FDs) are generally low-risk options that provide steady but relatively lower returns. Mutual funds may offer higher returns, while shares (equity) have the potential to generate the highest returns over the long term but also involve the highest level of risk.

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In general, lower-risk investments tend to offer lower returns, while higher-risk investments may offer higher returns. Therefore, people should choose investments based on their financial goals, the amount of risk they are willing to take, and when they are likely to need the money.

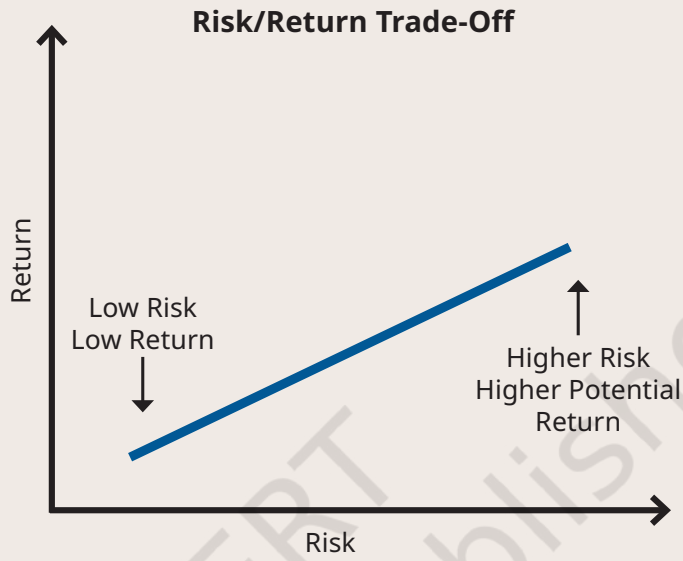


Fig. 5.9. Relationship between risk and return

Taxes

Taxes are compulsory payments made by individuals and businesses to the government to fund public services, such as schools, hospitals, transport, defence, and other essential facilities. There are two main types of taxes:

- **Direct taxes,** which are paid directly on a person's or organisation's income or profits, such as the income tax.
- **Indirect taxes,** which are added to the price of goods and services, such as the Goods and Services Tax (GST).

Personal Income Tax

Personal income tax is a tax paid on the income a person earns in a year (called a financial year, say 1 April 2001 to 31 March 2002). All citizens of India with a personal income are required to pay income tax, with the sole exception of individuals who earn below a certain limit and are exempt from paying the tax. As income increases, the tax payable to the government also increases. This system is known as **progressive taxation,** which aims to reduce income inequality by imposing higher tax rates on individuals with higher incomes.

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The underlying principle is that people with greater financial capacity can afford to contribute a larger share of their earnings towards funding public services, such as schools, hospitals, roads, and security. Paying taxes honestly and on time is an important responsibility of every citizen as it contributes to the well-being of society and the development of the country.

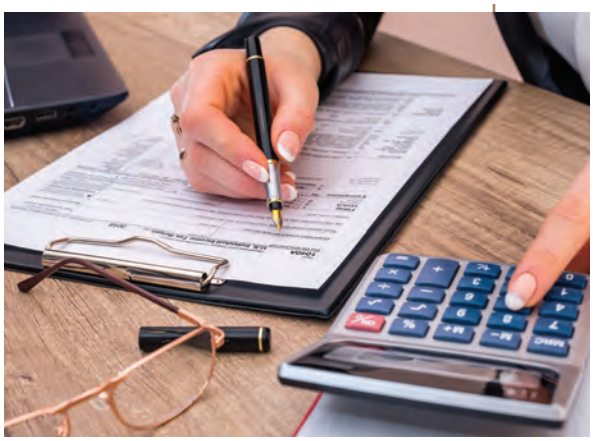


Fig. 5.10. Filing income tax

India follows a slab system for calculating income tax, as shown in Table 5.1. Under this system, taxable income is divided into different ranges, called tax slabs, and each slab is taxed at a specified rate, as seen in Table 5.1. The tax slabs are proposed by the Ministry of Finance as part of the Union Budget presented to the Parliament every year. The Central Board of Direct Taxes (CBDT), under the Ministry of Finance, is responsible for administering the laws relating to direct taxes in India.

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%

Let us understand how a person's income tax liability is calculated. Suppose Priya, a business analyst, earns ₹14 lakh per year. Firstly, her income to be taxed will be calculated as follows:

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Step 1: Calculate Taxable Income

Particulars	Amount (₹)
Annual Salary	14,00,000
Standard Deduction	75,000
Taxable Income	13,25,000

Standard deduction: A fixed amount that salaried employees and pensioners can deduct from their income before calculating income tax, as allowed under the Income-tax Act, 2025

Step 2: Applying the Tax Rate as per the Tax Slabs

Different portions of income are taxed at different rates. For Priya, the first ₹4 lakh of her income are not taxed; the next ₹4 lakh are taxed at 5%; the next ₹4 lakh are taxed at 10%, and so on, as seen in Table 5.2.

Table 5.2. Calculation of Income Tax as per the Tax Slabs

Portion of Income in the Tax Slab	Tax Rate	Tax on that Portion of Income
Up to ₹4,00,000	0%	0
₹4,00,001–₹8,00,000 (next ₹ 4,00,000)	5%	5% of ₹4,00,000 = ₹20,000
₹8,00,001–₹12,00,000 (next ₹4,00,000)	10%	10% of ₹4,00,000 = ₹40,000
₹12,00,001–₹13,25,000 (remaining ₹1,25,000)	15%	15% of ₹1,25,000 = ₹18,750
Total Tax		**₹78,750**

LET'S ANALYSE

→ 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?

→ 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*



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In conclusion, managing money wisely is not just about earning more—it is about making careful financial decisions at every stage, whether it involves spending, saving, investing, protecting against risks, borrowing responsibly, or paying taxes. The choices individuals make today shape their financial future and determine their ability to achieve financial stability while managing financial opportunities and challenges.

Before we move on...



- Making informed financial decisions from a young age builds financial security, independence, and confidence for the future.
- Personal finance rests on the five pillars—income, budgeting, saving, investing, and protection—to ensure financial security for individuals.
- Budgeting helps individuals plan their expenses, control unnecessary spending, and save for future needs. Saving and investing are important for building wealth, meeting goals, and protecting money from the effects of inflation.
- Different investment options involve different levels of risk and return, so investment choices should match an individual's goals and risk tolerance.
- Insurance protects individuals and families from financial losses during contingencies.
- Income tax helps governments provide essential public services and infrastructure. Paying taxes honestly is a citizen's responsibility, and helps the government provide public services and promote national development.

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Questions and activities



1. Why is managing money wisely important for all individuals irrespective of their income?
2. How can budgeting help people balance their present needs with their future financial goals? Give examples.
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.

School Reopening Budget

Total Amount	₹3000
Expenses	**Amount**
School bag	₹
Books	₹
Uniform and shoes	₹
Notebooks	₹
Pens	₹
Pencils	₹
Art supplies	₹
Total Expenses	₹
Savings	₹



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?

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.

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6. How does inflation affect the value of money over time? Why should people consider inflation while making financial decisions?
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?
8. Why do people buy insurance policies even though they may never face a major loss? How does insurance provide financial security?
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 following categories:

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

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

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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

Many financial experts recommend:

Expenses = Income – Savings

If your family receives ₹1,00,000 and saves ₹20,000 first, only ₹80,000 is available for spending. This helps ensure that future needs and emergencies can be met.

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.

Notes



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