



**GOVERNMENT OF ANDHRA PRADESH**  
**COMMISSIONERATE OF COLLEGIATE EDUCATION**



**FINANCIAL LITERACY**

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## **I. LEARNING OUTCOMES**

After studying this topic Students will be able to understand:

1. The ability to make better financial decisions.
2. Effective management of money and debt.
3. It will help in understanding financial concepts and the importunacy of financial matters.
4. To identify and analyze the financial sources.
5. Greater equipped to reach financial goals.
6. It will help the students to manage their money in better way.
7. Demonstrate practical skills to get income as business correspondents.
8. Reduction of expenses through better regulation.

## **II. LEARNING OBJECTIVES**

- 1.The goal of financial literacy is to help in understanding financial concepts.
2. It will help the students to manage their money better.
3. It is a life skill that one must grasp for good financial wellbeing.
4. Financial literacy includes budgeting, investing, insurance, and loans and interest.

### **III. INTRODUCTION**

Financial literacy is the ability to understand and effective use financial skills. These financial skills are as simple, budgeting, investing, credit management, and financial management. In other words, financial literacy is the ability to manage money. A strong foundation of these financial skills will help in achieving various life goals like retirement, education, and even going on a vacation.

Acquiring these skills would require one to understand the basic financial concepts like time value of money, compound interest annualized return and opportunity cost.

With an abundance of credit products available in the market like credit card debt, overdraft facility on debit cards, and EMI financial literacy becomes important. Understanding debt and having basic financial knowledge will help individuals to use these products responsibly.

Financial literacy often teaches individuals how to make major financial decisions. Moreover, it increases financial discipline and financial capability. This will lead to major lifestyle changes like saving and investing regularly, managing debts effectively and fulfilling life goals efficiently. Additionally, financial literacy will ensure one's financial wellbeing and also protect individuals from financial frauds.

## IV. BASICS OF FINANCIAL LITERACY

Financial literacy is important because it equips one with the knowledge and skill to manage money effectively. Without financial literacy, the actions and decisions do not make with respect to savings and investments would lack a strong foundation. Financial literacy helps in understanding financial concepts better and enables one to manage their finances efficiently.

Furthermore, it helps in effective money management, making financial decisions, and achieving financial stability. Moreover, financial literacy provides in depth knowledge of financial education and various strategies that are indispensable for financial growth and success.

One can understand the importance of financial literacy by understanding the four basics of financial literacy better. They are:

### **(a) Budgeting:**

Budgeting is an essential life skill that helps in acquiring financial knowledge for planning and managing money. It is one of the most important components of financial literacy. It is necessary to keep a tab on one's spending habits. Optimal money management will help in creating an actionable financial plan. The actionable plan will help in tracking the expenses, segregating the unnecessary ones and help in spending money wisely. This way, one can save more. Budgeting helps in planning for short-, medium- and long-term expenses. Therefore, budgeting is vital for financial security and independence.

### **(b) Debt/borrowing:**

Debt is nothing but one's borrowing. One is spending money that isn't theirs. For example, if an individual borrows money from the bank or uses a credit card or takes a short-term loan. All these become part of the debt.

### **(c) Saving:**

Saving ensures financial wellness, a secure present and an uncompromised future. One can build wealth in the long term through proper financial planning. Keeping a tab on one's spending habits will help in saving money. Therefore, through savings, one I can easily achieve the important financial goals. For example, full payment of a home loan, kid's education, and retirement savings.

### **(d) Investing:**

Instead of holding the money idle in a bank account, one can divert it to financial instruments. Investing is all about generating and growing wealth to enjoy a secure and happy future. It is all about putting money in an avenue that will help in generating significant returns over time. Investments will help in generating additional monthly income and significant returns. One can also achieve their financial goals at the same time allocate funds towards retirement saving. Some of the widely used investment options are equities, debt instruments, mutual funds, real estate, and gold.

## **V. HOW TO IMPROVE OUR FINANCIAL LITERACY SKILLS?**

Developing financial literacy skills is essential. It helps in improving personal finance management. Personal finance is a process which involves learning, practising and applying a variety of financial skills. It ranges from budgeting, managing, and paying off debt, understanding credit and various investment products.

## **VI. CONCLUSION**

Financial literacy is a major life skill one needs to have as it increases your financial capability. Planning finances, managing budgets and savings should be taught right from the school days. However, it's never too late to learn about it. One can improve financial literacy by understanding the components of it.

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## VIII. WEBLINKS

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