



THE POMEGRANATE TREE

FINANCIAL LITERACY SERIES LEVEL 2 (AGES 9 – 12)



A PROJECT OF THE STATE BANK OF PAKISTAN
& THE ASIAN DEVELOPMENT BANK

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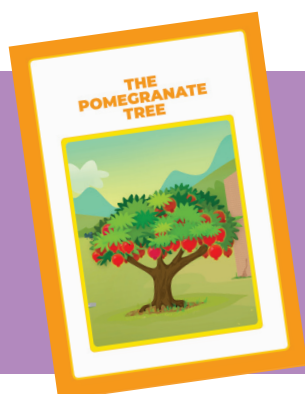


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THE FINANCIAL LITERACY SERIES

Welcome to the State Bank of Pakistan’s Financial Literacy Series (NFLP-Y, or the National Financial Literacy Program for Youth) Level 2 (*The Pomegranate Tree*). This is the second in a series of four books aimed at helping both children and young adults understand and apply principles of financial planning in their daily lives.

In this book, you will follow the stories of two families as they deal with financial and commercial matters. Financial literacy refers to the skill and knowledge of a person in handling matters such as saving, managing income, curbing expenses, investing, borrowing, budgeting and planning. A person who is financially literate will make better financial plans and decisions for their present and future. Everyone can benefit from stronger financial literacy skills.

The heroes in our storybook deal with different issues at various stages in their lives. In the process of reading the story, you will learn how our heroes tackle these issues. You and your family may enjoy reading this book together.

The books in this series are:

Financial Literacy Series Level 1 (*One Pomegranate, Two Pomegranate*) Ages 5 – 8

Financial Literacy Series Level 2 (*The Pomegranate Tree*) Ages 9 – 12

Financial Literacy Series Level 3 (*Pomegranate Juice*) Ages 13 – 17

Financial Literacy Series Level 4 (*The Pomegranate Enterprise*) Ages 18 – 29

If you enjoy this book, we encourage you to read all the books in this series.

We wish you happy reading and great success in everything you do!

HOW TO USE THIS BOOK

Dear Students and Parents,

Welcome to State Bank of Pakistan's Financial Literacy Series (NFLP-Y) Level 2: *The Pomegranate Tree*.

Everyone needs to learn about handling money—income, expenses, saving, borrowing, planning and many other things! Here is a fun and easy way to learn how to handle money.

Students, we hope that you go through

this book with your parents, brothers and sisters and friends.

Parents, we hope that you go through this book with your children. They will learn a lot if you talk to them about your personal experiences as you go through this book with them.

This book has three storybooks and three workbooks. Each workbook is linked to a storybook.

Please meet the people in our stories.

MEET THE FAMILY IN THE CITY



Shereen

Shereen is 10 years old. Her favorite subjects in school are math and science. She likes to plan school events.



Daniyal

Daniyal is Shereen's 8 year-old brother. He loves playing cricket and is also very fond of animals.



Safdar

Safdar is Shereen and Daniyal's father. He owns and runs a fruit shop.



Rabia

Rabia is Shereen and Daniyal's mother. She teaches math at a local school and helps her children with their homework.

MEET THE FAMILY IN THE VILLAGE



Ali

Ali is 10 years old. He is Shereen's cousin. He likes exploring and learning about nature.



Nusrat

Nusrat is Ali's mother and Safdar's sister. She owns a small farm where she lives with her son.

THE WORKBOOKS

The workbooks have four types of content:



These pages provide you with information about money matters.

INFORMATION



These pages have exercises. Try to complete them by yourself or with your parents, brothers and sisters, or friends!

ACTIVITY



These pages give you answers for the exercises you will have completed.

SOLUTION



These pages give you the meanings of words related to money matters.

GLOSSARY



We wish you an enjoyable and fruitful learning journey.

Yours,

Shereen

THE POMEGRANATE TREE



Safdar

Rabia

Daniyal

Shereen

Shereen and her brother Daniyal live in the city. This bright morning, they're in a village with their father Safdar and their mother Rabia.

They are visiting their cousin Ali and his mother Nusrat. Ali and Nusrat live on a small farm.

Ali is very happy when his cousins visit him. Since he stopped going to school, Ali

has been spending his time exploring the area around the village.

In the afternoon, Ali takes Shereen and Daniyal for a walk to the market. The children love the village market.

Shereen wants to buy a decorated box to save her pocket money in, Daniyal wants to buy a ball, and Ali wants to buy some *halwa*.

Nusrat

Ali



On their way to the market, Ali stops under a pomegranate tree and says, "I love this tree and its beautiful red fruit."

"Pomegranates are so delicious," says Daniyal.

Shereen looks at the fruit



thoughtfully. “The person who owns it must make a lot of money selling the fruit,” she says. “Why don’t you have one on your farm?”

Ali nods. “I want one, but I don’t have enough money.”

Shereen says, “I will help you get one! I have 300 rupees.” Ali says, “I have 100 rupees!”

The children walk to the village nursery. Ali runs off to find the owner. He

comes back with the owner and information about pomegranates.

The owner tells them that they can buy seeds, a sapling or a full-grown tree.

He explains that the seeds are the cheapest option but may or may not grow.

The owner also says that even though the sapling and tree may seem more expensive, the children can sell



Pomegranates

ITEM	PRICE (Rs.)	TIME TO FRUIT (YEARS)	CHANCE OF PRODUCING FRUIT
 Seed	100 for 5	2	LOW
 Sapling	1,200 for 1	1	MEDIUM
 Tree	6,000 for 1	Now	HIGH

the fruit and make their money back faster.

Shereen says, “I think we should buy the sapling. It’s grown already.”

“But you don’t have enough money!” says Daniyal.

Ali says, “Ammi gives me 200 rupees every month. But I really like buying *halwa* from the market.”

“I get 450 rupees a month, but I want to buy a decorated box, a book, and some other things,” Shereen says.

Shereen makes a savings





plan.

“If we can spend some of our money on only the important things, and save the rest of it, we will have 1,200 rupees in 2 months!” she explains.



Savings Plan
(Goal: Rs. 1,200)

Person	Now	Savings Month 1	Savings Month 2	Total Savings
 Shereen	300	300	300	900
 Ali	100	100	100	300
Total	400	400	400	1,200

Ali is very happy. “We’ll save our money and together buy the sapling for 1,200 rupees.”

Two months later, with their savings, Ali buys and plants a pomegranate sapling.

His mother is impressed. “Ali, I’m so proud of you. How did you know how much to save?”



Ali replies, "I didn't. Shereen added up all the money and made a savings plan for us."

"Hmm," says Nusrat. "So, if you have problems with planting the sapling or taking care of it, are you going to call Shereen?"

Ali says, "What can I do? Shereen can learn about these things from books because she can read. She can create savings plans because she knows math."

Nusrat replies, "So, what do you think you should do?"

Ali says, "Do you think I should go to school? I could learn to read and do math."

"Yes, I think that is an

excellent idea." says Nusrat.

Ali nods eagerly. "And I could read about how to keep my tree healthy!"

Another 3 months have gone by.

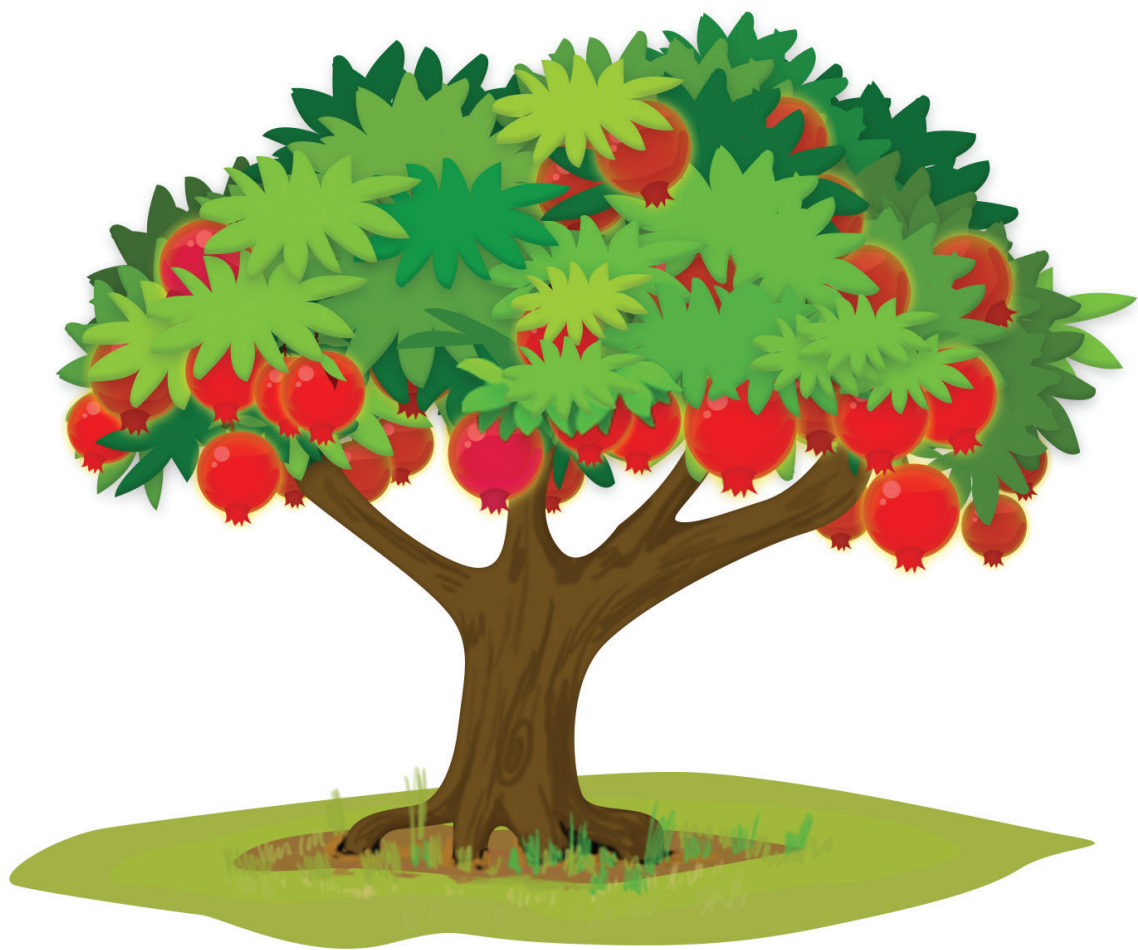
Ali's sapling is well on its way to becoming a tree. It is growing strong under the sun. The children are happy with their choice.

"Ammi! I'm off to school. I'll see you at lunch." Ali walks out of his house in his shiny new uniform, carrying a schoolbag on his back.

Today, his class will learn all about how plants grow.



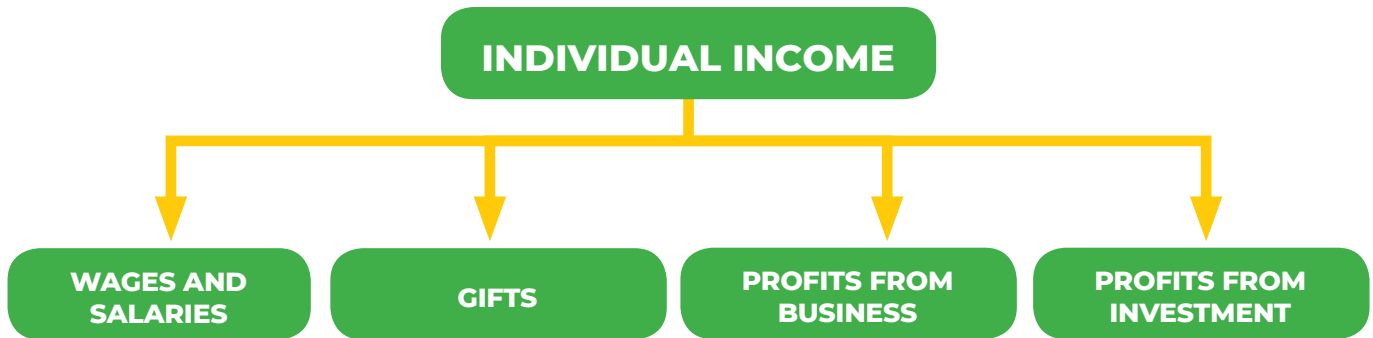
THE POMEGRANATE TREE WORKBOOK



INCOME: INDIVIDUAL INCOME AND EXPENSES



Individuals and families have income from different sources and expenses of different types.



Income may include:

- ▶ Wages or salaries (e.g., Rabia has a salary as a teacher)
- ▶ Gifts from others (e.g., Safdar and Rabia give the children pocket money)
- ▶ Profits from business (e.g., Safdar gets a profit from his fruit shop)
- ▶ Profits from investment (e.g., profit on savings in a savings account)



Expenses may include:

- ▶ Food and household expenses (e.g., Safdar buys vegetables and cleaning products from the shop)
- ▶ Rent, electricity and gas
- ▶ Education fees and doctor fees
- ▶ Entertainment, luxuries and gifts (e.g., Safdar and Rabia pay for movie tickets for the whole family)

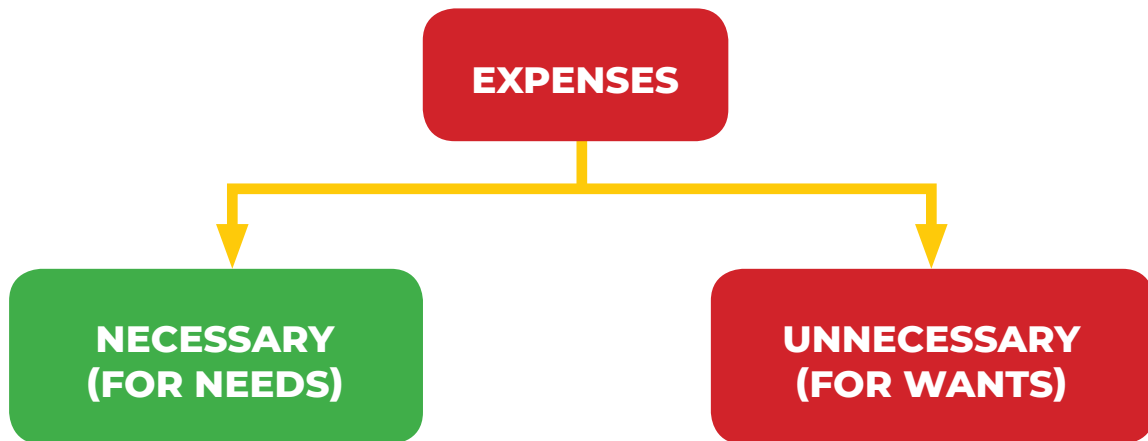
The most important financial aim of a family is that, for any given period, income should be greater than expenses.

income
expenses
wages
pocket money



EXPENSES: NECESSARY AND UNNECESSARY

You can have two kinds of expenses. You can have necessary expenses and you can have unnecessary expenses.



Some things are very important and you must have them. Having these things meets human **needs**. For example, going to school and eating lunch are both needs. **Expenses that meet needs are necessary expenses.**



Some things are not important, but make you happy so you want to have them. These are called **wants**. For example, buying a new toy and eating ice cream are both wants. **Expenses that meet wants are unnecessary expenses.**



If you don't have enough money, it is better to cut unnecessary expenses than necessary expenses.



EXPENSES: SHEREEN'S UNNECESSARY EXPENSES



- ▶ Shereen receives Rs. 450 as pocket money.
- ▶ This month, she will have expenses of Rs. 200.
- ▶ This month, she will have savings of Rs. 250.

If Shereen wants to increase her savings to Rs. 300 and only have necessary expenses, what expenses should she cut out?

Shereen's Savings Goal = Rs. 300			
	Income (Rs.)	450	450
	Expenses	Before cutting out unnecessary expenses (Rs.)	After cutting out unnecessary expenses (Rs.)
1.	School book	125	<input type="text"/>
2.	Sweets	25	<input type="text"/>
3.	New toy	25	<input type="text"/>
4.	Toothbrush	25	<input type="text"/>
5.	Total Expenses	200	<input type="text"/>
6.	Total Savings	250	<input type="text"/>



The solution to this exercise can be found on page 78



EXPENSES: YOUR UNNECESSARY EXPENSES

List some of your, your family members' or your friends' expenses. Can you tell if these expenses are necessary or unnecessary?



1.

2.

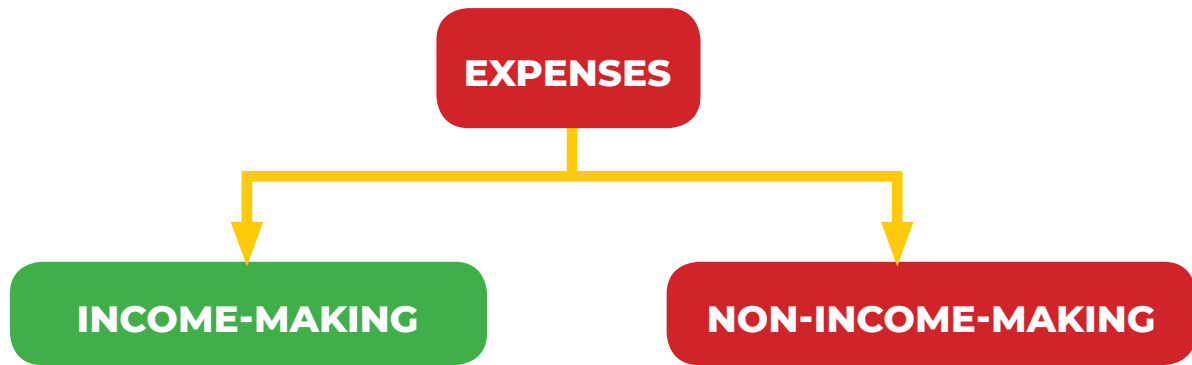
3.

4.

EXPENSES: WILL YOU MAKE MONEY?



You spend money on many things. Some of your expenses will help you make money (income). Other expenses will not.



Income-making expenses are expenses which help you make money.

Non-income-making expenses are expenses that do not earn you any money.



expenses
income



EXPENSES: BUYING A FRUIT TREE

Imagine that you spend money to grow a tree.

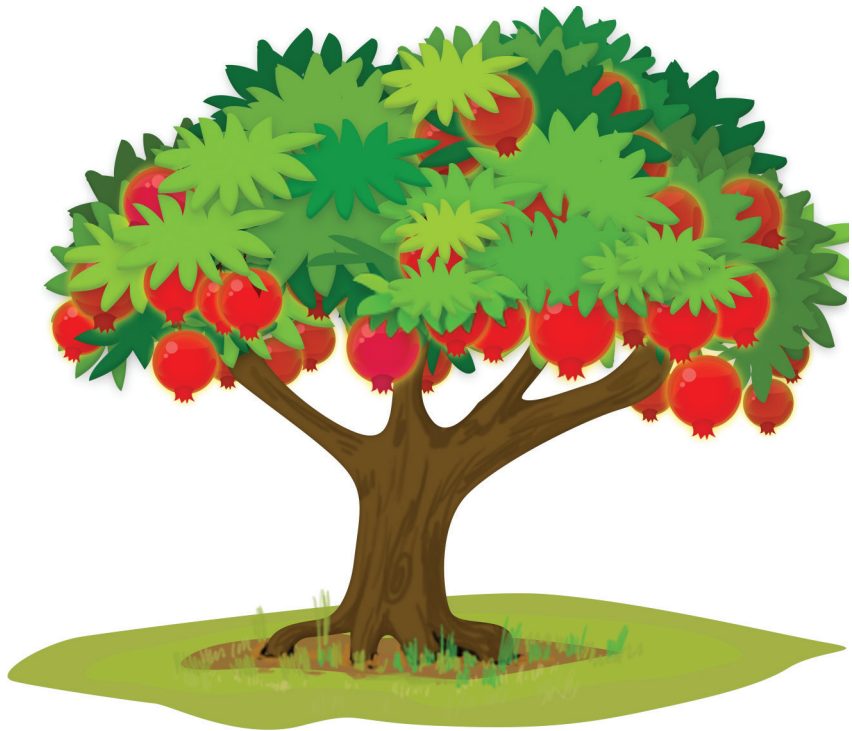
1. You could grow a fruit tree and make money by selling the fruit.
2. You could also grow a fruit tree and enjoy eating the fruit without selling any fruit.
3. You could also grow a tree without edible fruit, just to enjoy its beauty.

Which type of expense will be easier for most people to bear?

Most people will find it easier to spend money to grow the fruit tree if they can make money by selling the fruit. This is because it is an **income-making expense**.

If they sell the fruit, some of the money they spent to grow the tree will come back to them.

If they eat the fruit, they will enjoy it, but the money they spent to grow the tree will not come back to them, but they will have savings because they will buy less fruit.



EXPENSES: WILL ALI MAKE MONEY?



Choose whether or not the following expenses will allow Ali to earn money.

Earns Money

Does NOT Earn Money

1. Ali buys a pomegranate tree because it is pretty.



2. Ali buys the tree because pomegranates are his favorite fruit.



3. Ali buys the tree to sell the fruit.



4. Ali buys the tree to sell it to someone else.



5. Ali buys the tree to gift it to his mother.



The solution to this exercise can be found on page 78



EXPENSES: WHAT TO BUY AT THE NURSERY?

When they go to the nursery, should Shereen and Ali buy seeds, a sapling or a tree?

Pomegranates			
ITEM	PRICE (Rs.)	TIME TO FRUIT (YEARS)	CHANCE OF PRODUCING FRUIT
 Seed	100 for 5	2	LOW
 Sapling	1,200 for 1	1	MEDIUM
 Tree	6,000 for 1	Now	HIGH

Based on the information above, circle the best answer:

1. If their plan is to SAVE money, what should they buy?

Seeds

Sapling

Full-grown Tree

2. If their plan is to get FRUIT quickly, what should they buy?

Seeds

Sapling

Full-grown Tree

3. If their plan is to SELL fruit and NOT spend too much money, what should they buy?

Seeds

Sapling

Full-grown Tree

sapling



EXPENSES: WILL YOU MAKE MONEY?



List some of your, your family members' or your friends' expenses. Can you tell if these expenses earn money or don't earn money?

Earns Money

Does NOT Earn Money

1.

2.

3.

4.



SAVINGS: INCOME – EXPENSES

What are savings? If, in any month, your income is more than your expenses, you will have savings.

$$\begin{array}{ccccc}
 \text{INCOME} & - & \text{EXPENSES} & = & \text{SAVINGS} \\
 \hline
 & & \text{e.g.} & & \\
 \hline
 1,000 & - & 800 & = & 200 \\
 \text{income} & & \text{expenses} & & \text{savings}
 \end{array}$$

If in one month, Rabia and Safdar have a total **income of Rs. 70,000** and **expenses of Rs. 50,000**, they will have **savings of Rs. 20,000**.

If in one month, Rabia and Safdar together have an **income of Rs. 70,000** and **expenses of Rs. 80,000**, they will have **no savings** and might have to borrow money to meet their expenses.

borrow



SAVINGS: SAVINGS GOAL



A well-developed savings goal usually involves three things: (1) the purpose of your savings goal; (2) the amount of money to be saved; and (3) the time period in which you want to reach your savings goal.



- ▶ Purpose: the reason you want to save. E.g., “I want to buy a bicycle.”
- ▶ Amount: the amount of money you want to save. E.g., “I want to save Rs. 20,000.”
- ▶ Time: the time period within which you want to reach your savings goal. E.g., “I want to save Rs. 20,000 in 3 months.”



SAVINGS: SAVINGS PLAN

A savings plan allows you to meet a savings goal.

Savings Goal = Rs. 10,000				
Period	Now (Rs.)	Month 1 (Rs.)	Month 2 (Rs.)	
1. Income	-	20,000	20,000	
2. Expenses	-	17,500	16,500	
3. Savings per month	-	2,500	3,500	
4. Total savings	4,000	6,500	10,000	

Annotations:

- The months or time you will have to save (points to Period column)
- The money you will spend (points to Expenses row)
- The total amount you will save (points to Total savings row)
- The money you want to save (points to Savings Goal title)
- The money you will earn or receive (points to Income row)
- The money you will save each period (points to Savings per month row)

Rabia wants to buy a tablet for Rs. 10,000, within the next 2 months.

She currently has savings of Rs. 4,000.

She has a monthly income of Rs. 20,000.

In the first month, she can save Rs. 2,500. Her total savings grow to Rs. 6,500.

In the next month, she cuts her expenses to Rs. 16,500 and grows her savings by Rs. 3,500.

Therefore, after 2 months, her total savings reach Rs. 10,000 and she is able to buy the tablet.

savings
savings plan
savings goal

SAVINGS: SHEREEN'S SAVINGS PLAN



- ▶ Shereen has savings of **Rs. 300**.
- ▶ She receives **Rs. 450** every month as pocket money.
- ▶ She wants to reach a savings goal of **Rs. 900** in the next two months. That way she can pay for 75% of the price of the sapling (Rs. 1,200).
- ▶ From her monthly pocket money, she wants to spend **Rs. 125** on a school book, **Rs. 25** on sweets, **Rs. 25** on new toys and **Rs. 25** on a toothbrush.
- ▶ She plans to save the rest.

Will Shereen be able to reach her savings goal in two months?

Shereen's Goal = Rs. 900				
	Period	Now (Rs.)	Month 1 (Rs.)	Month 2 (Rs.)
1.	Income	-	450	450
2.	Expenses	-	<input type="text"/>	<input type="text"/>
3.	Savings per month	-	<input type="text"/>	<input type="text"/>
4.	Total savings	300	<input type="text"/>	<input type="text"/>

The solution to this exercise can be found on page 79



SAVINGS: SHEREEN'S SAVINGS PLAN REVISED

- ▶ Shereen was planning to spend, from her monthly pocket money, **Rs. 125** on a school book, **Rs. 25** on sweets, **Rs. 25** on new toys and **Rs. 25** on a toothbrush.
- ▶ To get to her savings goal of Rs. 900 she will need to cut out unnecessary expenses.

Will Shereen be able to reach her savings goal in two months?

Shereen's Goal = Rs. 900				
	Period	Now (Rs.)	Month 1 (Rs.)	Month 2 (Rs.)
1.	Income	-	450	450
2.	Expenses	-	<input type="text"/>	<input type="text"/>
3.	Savings per month	-	<input type="text"/>	<input type="text"/>
4.	Total savings	300	<input type="text"/>	<input type="text"/>

SAVINGS: YOUR SAVINGS PLAN



Think of a savings goal you would like to reach in three months. It can be for something that you want to buy, or it can be an amount of money you want to have in case of an emergency.

- ▶ Note down your estimated monthly income.
- ▶ Calculate the monthly savings you need to reach your goal in 3 months.
- ▶ Estimate the expenses you can afford to have in order to reach this savings goal.

Your Savings Goal <input style="width: 100px; height: 20px;" type="text"/>				
	Period	Month 1 (Rs.)	Month 2 (Rs.)	Month 3 (Rs.)
1.	Income	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>
2.	Expenses	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>
3.	Savings per month	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>
4.	Total savings	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>

FROM FARM TO SHOP





Shereen and her family are visiting Nusrat and Ali in the village.

Ali's pomegranate tree is bearing fruit.

Safdar tastes one and says, "These are very healthy and tasty pomegranates. I can sell them in my fruit shop."

The cousins are thrilled!

Ali says, "This season, we will have 30 kilos of pomegranates for sale. How much will you pay us?"

Safdar replies, "I will pay

you 200 rupees for each kilo of fruit. I will sell each kilo of fruit for 240 rupees to my customers. But you must pay for transport."

The children agree.

The cousins get prices from three drivers.

Daniyal says, "Salim is the cheapest option, but he wants payment on pick up."

Ali says, "We don't have any money. Let's use Khaleel uncle. We will get the money from

Fruit Transport Prices

Driver	Price per kg of Pomegranate (Rs.)	Terms of Payment
Salim Omar 	90	On Pick Up
Khaleel Baig 	100	On Delivery
Jami Brothers 	120	On Delivery



Safdar mamu when we deliver the fruit and we can then pay the driver.” His cousins agree.

Ali tells Khaleel that Salim was charging 90 rupees per kilo



of fruit. Khaleel says, “I will charge you 100 rupees per kilo but you can pay me later.”

Ali agrees and shakes hands with Khaleel.

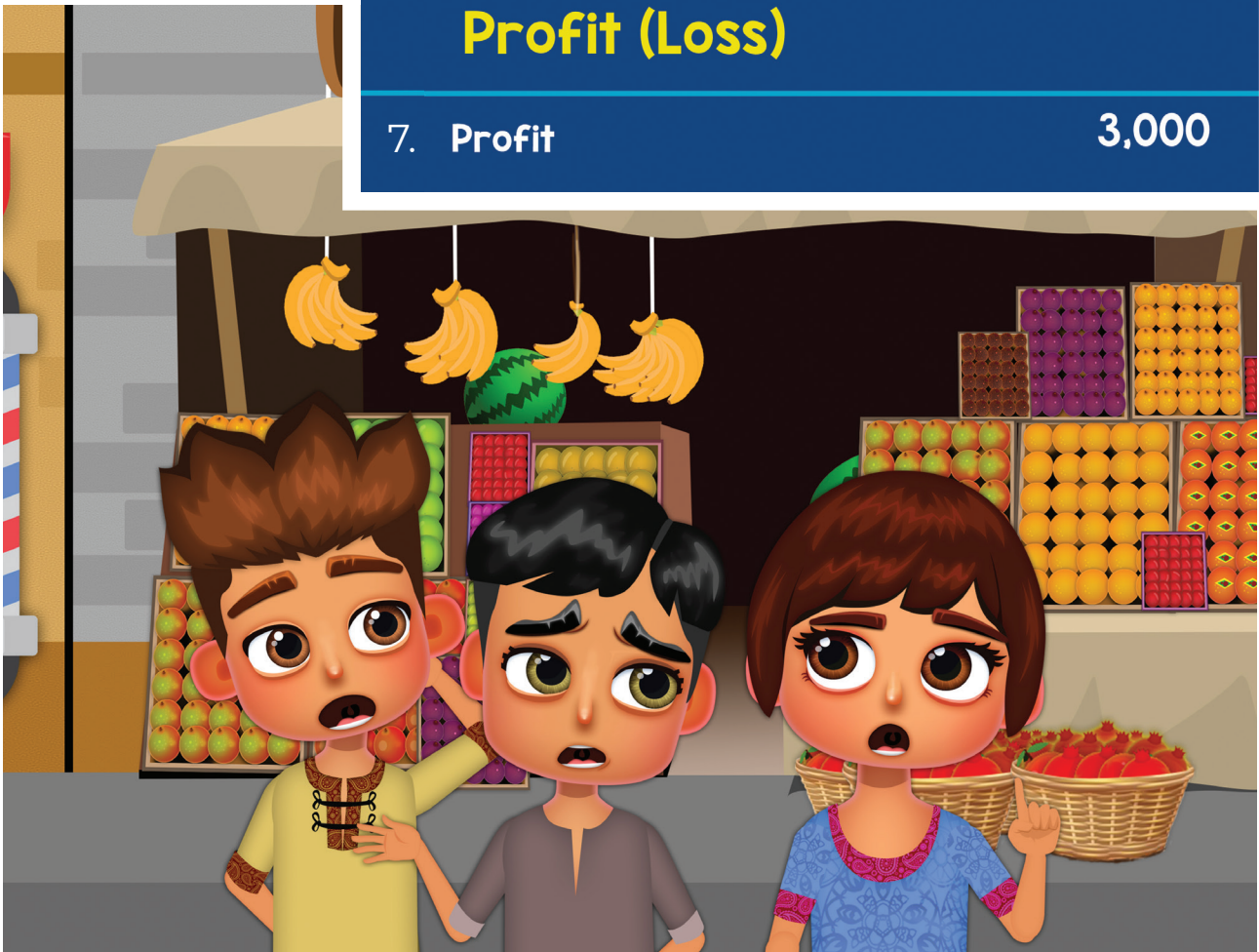
Ali rides in the van carrying the fruit. Shereen and Daniyal meet him at their father’s fruit shop.

When the fruit is delivered, Safdar pays the children. They pay the driver, and still have a good amount of money left over.

Shereen says, "Let's see. We got 6,000 rupees for 30 kilos of fruit at 200 rupees per kilo. And we paid the driver 3,000 rupees."

Ali calculates, "And I know from school that 6,000 minus 3,000 is 3,000. Is that how much we have?"

Profit or Loss (Rs.)	
Income	
1. Amount of fruit (kg)	30
2. Sales price per kg	200
3. Total	6,000
Expense	
4. Amount of fruit (kg)	30
5. Transport price per kg	100
6. Total	3,000
Profit (Loss)	
7. Profit	3,000





Daniyal says happily, "Exactly!" Shereen tells Ali that they should divide up the money. They make a table of how much money each put in.

Ali says, "Very good! We will both take the same share of the money as we put in."

Shereen frowns, "I don't think that's fair."

"Why?" asks Daniyal. "What could be more fair?"

"Well," she says, "Ali put in a

lot of work taking care of the tree. If we divide the money we get according to the money we put in, then we are not giving Ali anything for his hard work."

"How very true," says Daniyal.

Shereen says, "Ali, even though you put in 25% of the money for the sapling, I will give you 50% of the money we got. Because you put in so much work."

Ali is very happy. "Thank

you so much. I have learned that hard work should have a reward.”

As the cousins divide up the money, Ali says, “Let’s use our money to grow 6 more trees.”

Shereen replies, “Yes! 6 more trees.”

Shereen and Ali calculate that they will need Rs. 7,200 to buy 6 more saplings. But together they can only put in Rs. 1,000 from the

money they made from the sale of the pomegranates.

They decide to speak to Safdar and ask him what to do.

Safdar says, “I may lend you the money you need. But taking care of 7 trees is a lot of work. And you must make sure you can pay back the money.”

Ali says, “I think we will need help from my mother. I’m also getting busier in school.”

“Great idea,” says Safdar. “Let’s do that.”



FROM FARM TO SHOP WORKBOOK





PURCHASING: SMART BUYING

1

Obtain prices & terms from more than 2 sellers



100 boxes for Rs. 25 each in 1 week



300 boxes for Rs. 22 each in 1 month



100 boxes for Rs. 28 each today

2

Obtain full information from all sellers


3

Negotiate if needed with some sellers



100 boxes for Rs. 25 each in 1 week

Can you sell me those today?



Things to check before buying something:

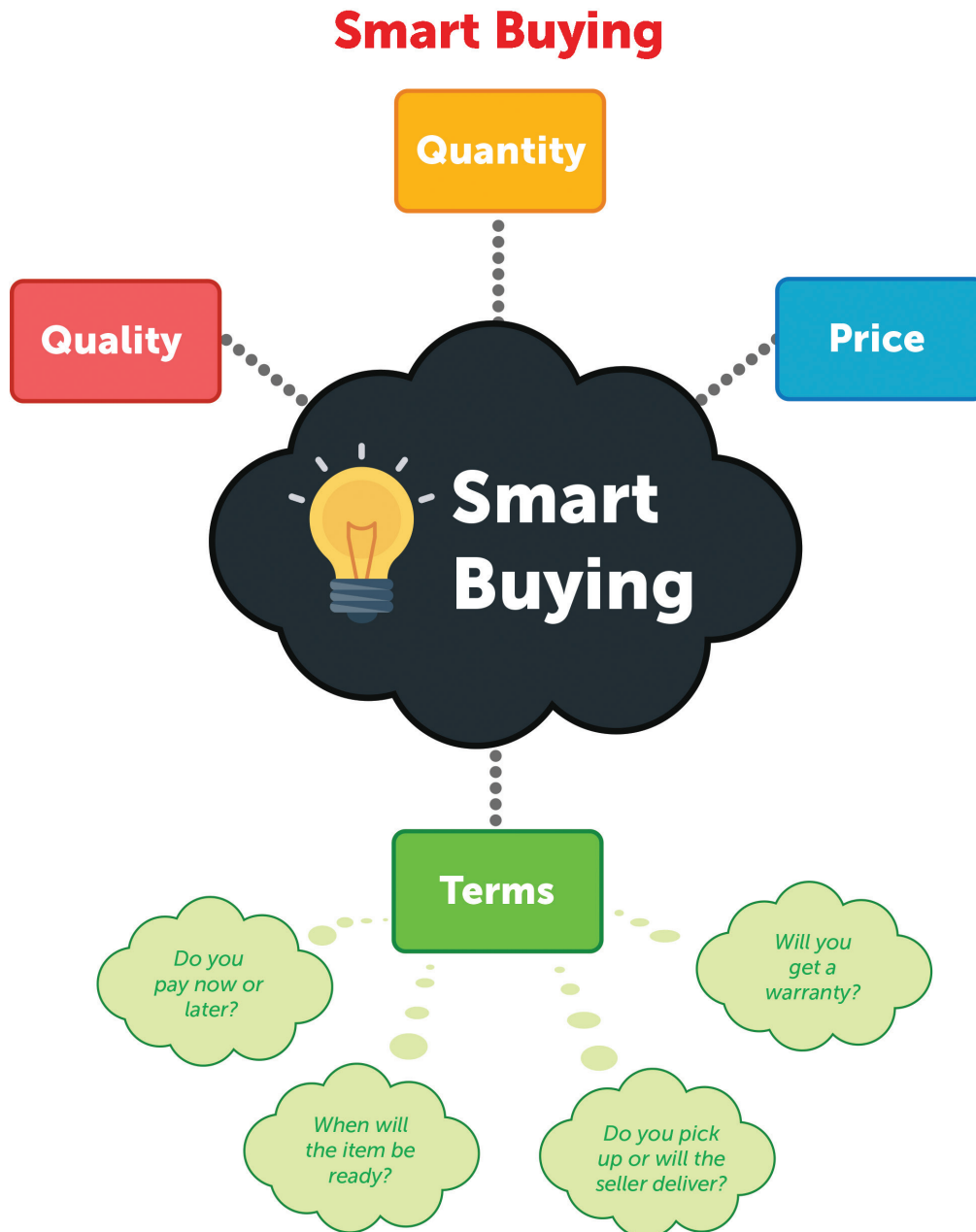
1. It's a good idea to get prices and terms from more than one seller.
2. It's a good idea to get all the information you need;
 - a. **Price** – what price the seller is offering.
 - b. **Quantity** – the amount of the product you want to buy.
 - c. **Quality** – the quality of the product you are looking for.
 - d. **Terms** – all the conditions attached to the purchase.
3. Negotiate with sellers to lower price and improve quality and terms.

terms
negotiate

PURCHASING: SMART BUYING TERMS



It is important to check the seller's terms before buying something.



Terms to check before buying something:

1. When is the payment for the purchase due? Can you pay now or later?
2. When will the product be ready?
3. Do you need to pick it up or will it be delivered?
4. Will you get your money back if the product is faulty or damaged?



PURCHASING: SMART BUYING

Can you tell what each statement is about?




	Quality	Quantity	Price	Terms
1. "Your clothes will be ready in one week."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. "I will sell this to you for Rs. 300."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. "If the TV does not work, I will fix it for free."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. "I want the most delicious mangoes."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. "You must pay me for the clothes today."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. "I want a dozen mangoes."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. "I will take the TV to your house."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PURCHASING: PRICING AND TERMS



Shereen, Ali and Daniyal get three different prices for transporting the fruit.

Which van should they hire?

Fruit Transport Prices		
Driver	Price per kg of Pomegranate (Rs.)	Terms of Payment
Salim Omar 	90	On Pick Up
Khaleel Baig 	100	On Delivery
Jami Brothers 	120	On Delivery

- Was it a good idea to get prices and terms of payment from more than one driver? If so, why?

.....

.....

- If the children have money to pay, which van should they hire? Why?

.....

.....

- If they have no money to pay until they get a payment from Safdar, which van should they hire? Why?

.....

.....



PURCHASING: ARE YOU A SMART BUYER?

Figure out what kind of a buyer you are by answering these questions.

True

False

1. "I get prices from more than one seller."

2. "I check the quantity of what I am buying."

3. "I check the quality of what I am buying."

4. "I check when I need to make a payment."

5. "I check if I can get my money back if the product I buy is faulty."

Total true check marks

Type of buyer	No. of true check marks
Very smart buyer	5
Smart buyer	4
Average buyer	3
Careless buyer	0-2



INCOME: CALCULATING PROFIT AND LOSS

Just as we have savings in our personal life, a business has profits.

Profit & Loss

Income	-	Expenses	=	Saving
Income	-	Expenses	=	Profit (Loss)

Rs				e.g.
Income	-	Expenses	=	Profit
1,200	-	1,000	=	200

Rs				e.g.
Income	-	Expenses	=	Loss
900	-	1,000	=	(100)

What is profit and loss?

Profit is the money a business has left after paying its expenses.

If the income of the business is **more** than expenses, it makes a profit.

If the income of the business is **less** than expenses, it makes a loss.



profit



INCOME: CALCULATING PROFIT AND LOSS

Let's look at how profit is calculated!

Income, Expenses & Profit

Income

-

Expenses

=

Profit
(Loss)

Rs

e.g.

	Items Sold		Price			
Income	100	×	12	=	1,200	
	Items Bought		Cost			
Expenses	100	×	10	=	1,000	
	Income		Expenses			
Profit	1,200	-	1,000	=	200	

To calculate **income**, multiply the number of items sold by the sale price per item.

To calculate **expenses**, multiply the number of items bought by the cost price per item.

To calculate **profit or loss**, subtract expenses from income.

INCOME: BUSINESS LOSS, BREAK EVEN AND PROFIT



Because it takes time to get customers, businesses often start with losses, then go to break even and then to profits.

Business loss, break even and profit

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	1,000	1,500	2,000	2,500	3,000
Expenses	1,300	1,600	2,000	2,400	2,600
Profit (Loss)	(300)	(100)	0	100	400

Loss	Break Even	Profit
-------------	-------------------	---------------

- ▶ **Loss:** Often, in the early years of a business, expenses will be more than income. This will result in a loss. To have enough money to cover losses, business owners will invest money in the business.
- ▶ **Break Even:** Once there are enough customers and income increases, a well-managed business will get to break even. At this point, income and expenses equal each other. Business owners will plan for businesses to get to break even as fast as possible.
- ▶ **Profit:** If businesses are well-managed, as they grow customers and income, their expenses will grow less slowly. This will result in profits. Business owners will keep some of the profit in the business to grow in the future or to cover losses that may happen in the future.



INCOME: CALCULATING PROFIT AND LOSS

Shereen and Ali buy a pomegranate sapling for Rs. 1,200. They pay Rs. 100 per kg to take 30 kg of pomegranates to town. They sell all the fruit for Rs. 200 per kg.

Calculate the children's:

- ▶ Total income
- ▶ Total transport expenses
- ▶ Total expenses
- ▶ Profit or loss

Income			
1.	Pomegranates sold	30 kg	
2.	Sales price per kg	Rs. 200	
3.	Total income		<input type="text"/>
Expenses			
4.	Pomegranates transported	30 kg	
5.	Transport expenses per kg	Rs. 100	
6.	Total transport expenses		<input type="text"/>
7.	Pomegranate sapling cost		1,200
8.	Total expenses		<input type="text"/>
9.	Profit		<input type="text"/>

INVESTMENT: SHARING PROFITS



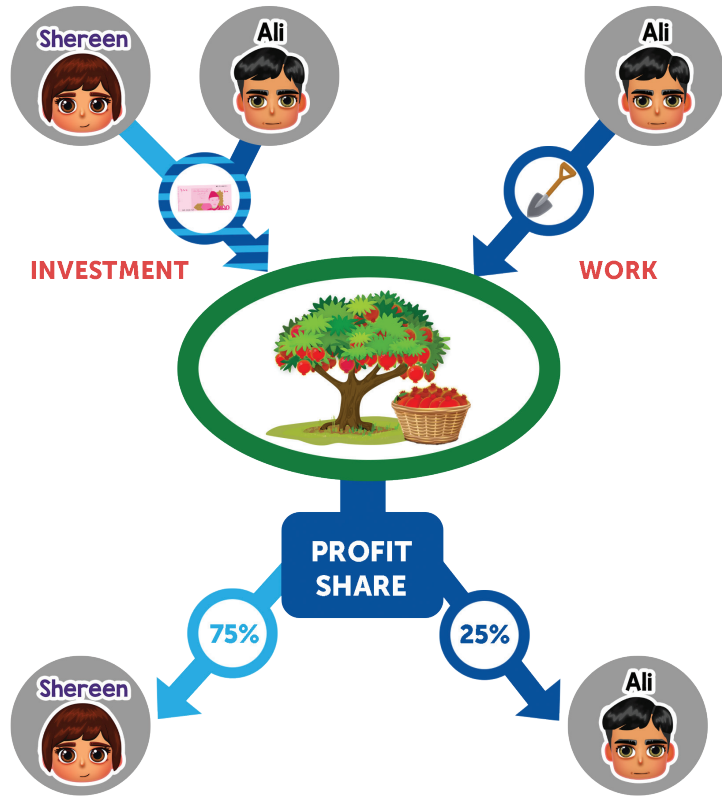
We can divide the profits from a business in different ways.

Example A: Sharing Profits by Investment

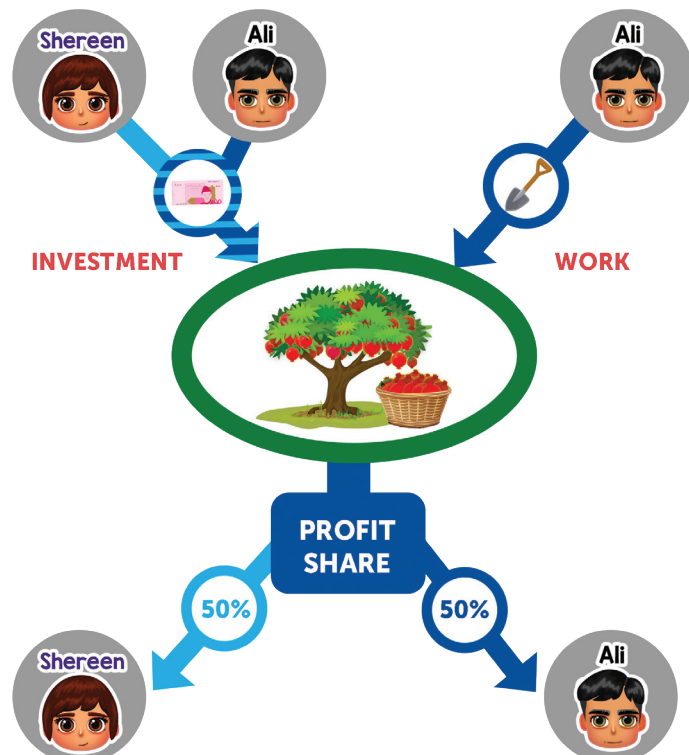
In this example, Shereen and Ali both put in money (invest) to buy a sapling. Ali also puts in extra work to grow the tree and transport the fruit.

In **Example A**, the profits are shared by Shereen and Ali on the basis of the money both of them have invested.

In **Example B**, the profits are shared by Shereen and Ali as investors of money PLUS Ali gets a profit share because of his extra work.



Example B: Sharing Profits by Investment PLUS Work



invest
profit share



INVESTMENT: SHARING PROFITS BY INVESTMENT

One way to divide profits is to look at how much money each person put in the business. This is known as an investment in the business. The amount of profit that each person receives from the business is called profit share.

For example, Shereen and Ali put in Rs. 1,200 to buy the tree. However, they did not pay equally for it. Let's see how we can calculate their profit share.

Profit share based on investment			
Item	Shereen	Ali	Total
1. Investment (Rs)	900	300	1,200
2. Profit share (%)	75%	25%	100%
3. Profit share (Rs)	1,350	450	1,800

Amount of money put into the business.

The division of profit as a percentage of total investment.

The % of investment multiplied by the total profit.

STEP 1:

Calculate the amount of money that each person put in the business as a % of total investment (Rs. 1,200). Shereen put in 75%, Ali put in 25%.

STEP 2:

Use the same % to calculate their profit share. The total profit is Rs. 1,800. If we use the same %, Shereen should get 75% (Rs. 1,350) and Ali should get 25% (Rs. 450).



INVESTMENT: SHARING PROFITS BY INVESTMENT AND WORK

Another way to divide profits is to look at how much money and work each person put into the business. This lets people decide who has worked more for the business and who should get a higher share of profits. Let's look at an example.

Profit share based on investment			
Item	Shereen	Ali	Total
1. Investment (Rs.)	900	300	1,200
2. Profit share (%)	75%	25%	100%
3. Profit share (Rs.)	1,350	450	1,800

Profit share based on investment and work			
Item	Shereen	Ali	Total
1. Investment (Rs.)	900	300	1,200
2. Profit share (%)	50%	50%	100%
3. Profit share (Rs.)	900	900	1,800

Shereen and Ali put in Rs. 1,200 as their total investment.

If they decide to share the profits by investment, Shereen will get 75% (Rs. 1,350) and Ali will get 25% (Rs. 450).

If they calculate the profit based on investment and work, they can change the percentage of profit share. Here, Ali gets 50% of the profits, because he did more work for the business than Shereen. Shereen will get 50% (Rs. 900) and Ali will get 50% (Rs. 900).



INVESTMENT: FRUIT BUSINESS PROFIT SHARING

Shereen and Ali make a profit of Rs. 1,800. How should they divide the profit?

Should they divide it by either:

Profit share based on investment

OR

Profit share based on investment and work

What do you think?

Should the cousins share profit:

1. Based on investment only?
2. Based on work only?
3. Based on both investment and work?

Explain.

.....

.....

.....

.....

.....

.....

.....

.....



INVESTMENT: FAIRNESS VS. PRACTICALITY

In financial planning, we often need to think about fairness and practicality.

FAIRNESS

Are my actions fair to all involved?

PRACTICALITY

Will my actions help me meet my goals?

Most of the time, it is BOTH fair and practical to take an action.

Action	Fairness	Practicality
If one business partner puts in more work than the other, the first business partner gets extra shares or benefits.	This is fair because the first business partner has put in more work.	This is practical because if you do not give extra shares or benefits to the first business partner, they may put in less work.
If you have a commitment to one person (e.g., to sell a product), don't break that commitment even if you find a short-term benefit elsewhere (e.g., someone offers you more money for the same product).	This is fair because you have made a commitment and the first person trusts you will live up to your agreement.	This is practical because if you break your commitment, you will lose the trust of the first person. Over time, other people may also lose trust in you.



INVESTMENT: YOUR PROFIT SHARING

We don't always expect to get something in return for the money or work we put into an activity. Giving money to charity, assisting the elderly, or helping with household chores are all things for which we do not expect to get something in return.

Other Activity

**HELPING
AT
HOME**



**HELPING
OTHERS**

Can you list some of the things you, your family or your friends do at home or outside, which are valuable to society but for which no payment is expected?

1.
.....
2.
.....
3.
.....
4.
.....



SAVINGS: BANK VS. HOME

A big question you should ask yourself is if you want to save money at home or in a bank.

Saving Options



These are some questions you should ask when deciding where to save money.

Will the money be easy to get when I want to spend it?



Will the money make an income?



Will the money be easy to transfer?



Will the money be safe from theft or natural disasters?



SAVINGS: BANK VS. HOME

Help Shereen decide whether saving at home or in a bank is better.

	At Home	In a Bank
1. Safety	<input type="checkbox"/>	<input type="checkbox"/>
.....		
2. Makes money	<input type="checkbox"/>	<input type="checkbox"/>
.....		
3. Easy to transfer money to another city	<input type="checkbox"/>	<input type="checkbox"/>
.....		
4. Easy to get to money	<input type="checkbox"/>	<input type="checkbox"/>
.....		
Where should she save her money?	<input type="checkbox"/>	<input type="checkbox"/>

SAVINGS: BANK VS. HOME



The benefits of saving money in a bank:

1. Your money earns an income

The mark-up rate offered by banks on a savings account allows you to earn an income on your deposited savings. For example, if you deposit Rs. 100 in a savings account with an annual mark-up rate of 10%, you will earn an income of Rs. 10 in the coming year.

2. Your money is safe

Banks spend a lot of money on making sure that their operations and computer systems are safe. Your savings are much more secure from theft and natural disasters when deposited in a bank.

3. Your money is easy to transfer

It is easy to transfer money from one person to another by using bank accounts. Mobile and branchless banking have also made everyday banking tasks like transferring money and bill payment much more convenient to perform.

4. Your money is easy to get to if you want to spend it

It is easier to get to your money if you save it at home, but this means leaving the house with a lot of money in your pocket every time. Having a bank account allows you the convenience to use a debit card to withdraw money from an ATM or pay a seller directly through your current account. With the increasing usage of mobile payments and banking, and more retailers accepting e-payment transfers, accessing your money and making a purchase has become easier than ever.

In summary

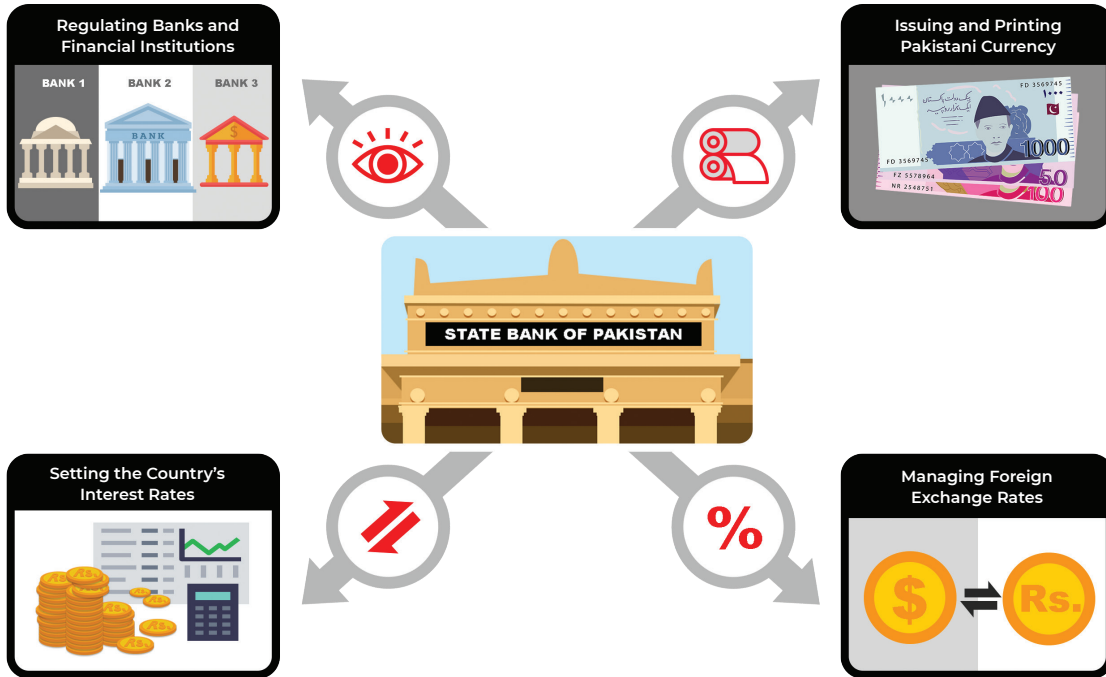
Banks keep your money **safe**, they make it **easy for you to make transfers** and payments. They **pay you** for every rupee you keep in a savings account and they allow you **convenient access** to your money through ATMs and mobile banking.

savings account
deposited
branchless banking
debit card
ATM



BANKING: THE STATE BANK OF PAKISTAN

The State Bank of Pakistan is the central bank of the country. It plays a vital role in the country's economy.



Roles of the State Bank of Pakistan

Managing money supply and issuing currency: The State Bank issues Pakistan's currency and controls the amount of currency in circulation. It uses its control of money to try and keep prices stable to manage inflation, and to make borrowing and saving easier to promote growth.

Regulating the financial sector and protecting consumer rights: The State Bank regulates and supervises banks and other financial firms to make sure that they are managed soundly and that the rights of consumers who deal with them are protected.

Managing foreign exchange reserves and the rupee exchange rate: The State Bank manages and invests Pakistan's foreign currency reserves. It also manages the exchange rate between the Pakistani Rupee and other foreign currencies.

Setting mark-up rates and promoting economic development in Pakistan: The State Bank uses its role as the central bank and as the supervisor of the private sector to promote economic development in Pakistan. It also determines the mark-up rate for borrowing and saving.

BANKING: KNOWING THE STATE BANK



Figure out how much you know by answering these questions.

True

False

1. The State Bank issues Pakistan's currency (rupees).

2. The State Bank loans money to businesses and individuals.

3. The State Bank manages Pakistan's foreign currency reserves.

4. The State Bank sets electricity and gas prices in Pakistan.

5. The State Bank owns all the banks in Pakistan.

6. The State Bank regulates all the banks in Pakistan.

The solution to this exercise can be found on page 82

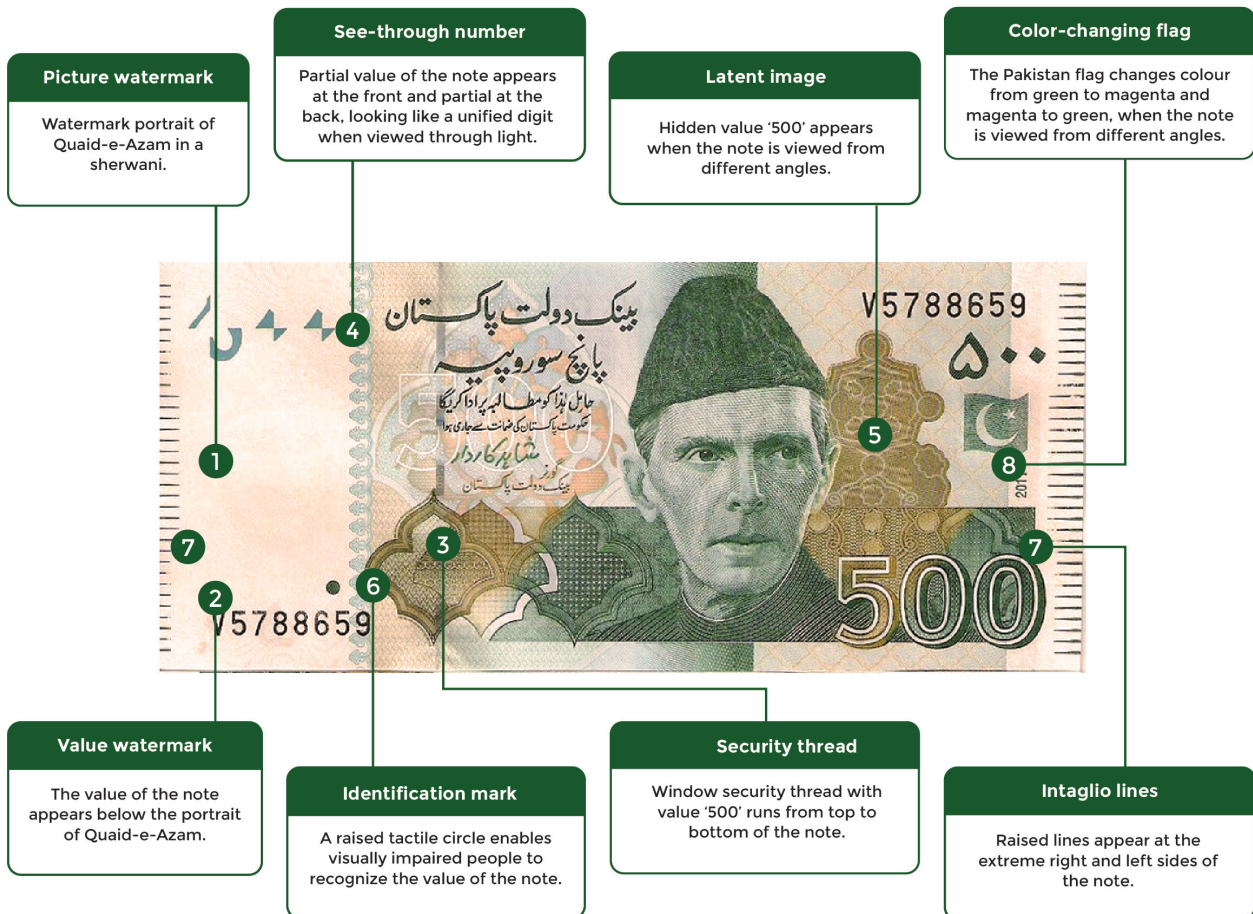


BANKING: CURRENCY FRAUD

The State Bank of Pakistan prints all the money (notes and coins) in the country. The Pakistan Rupee has 7 paper currency denominations: 10, 20, 50, 100, 500, 1,000 and 5,000. Every few years, the State Bank issues new versions of each bank note.

Only the State Bank has the right to issue currency. But criminals often print fake or counterfeit notes. If you get a fake note, it has no value. And giving others a fake note could be a crime. So, you need to learn how to tell real currency issued by the State Bank from fake notes printed by criminals.

Here are some security features to look out for when you receive a Rs. 500 bank note:



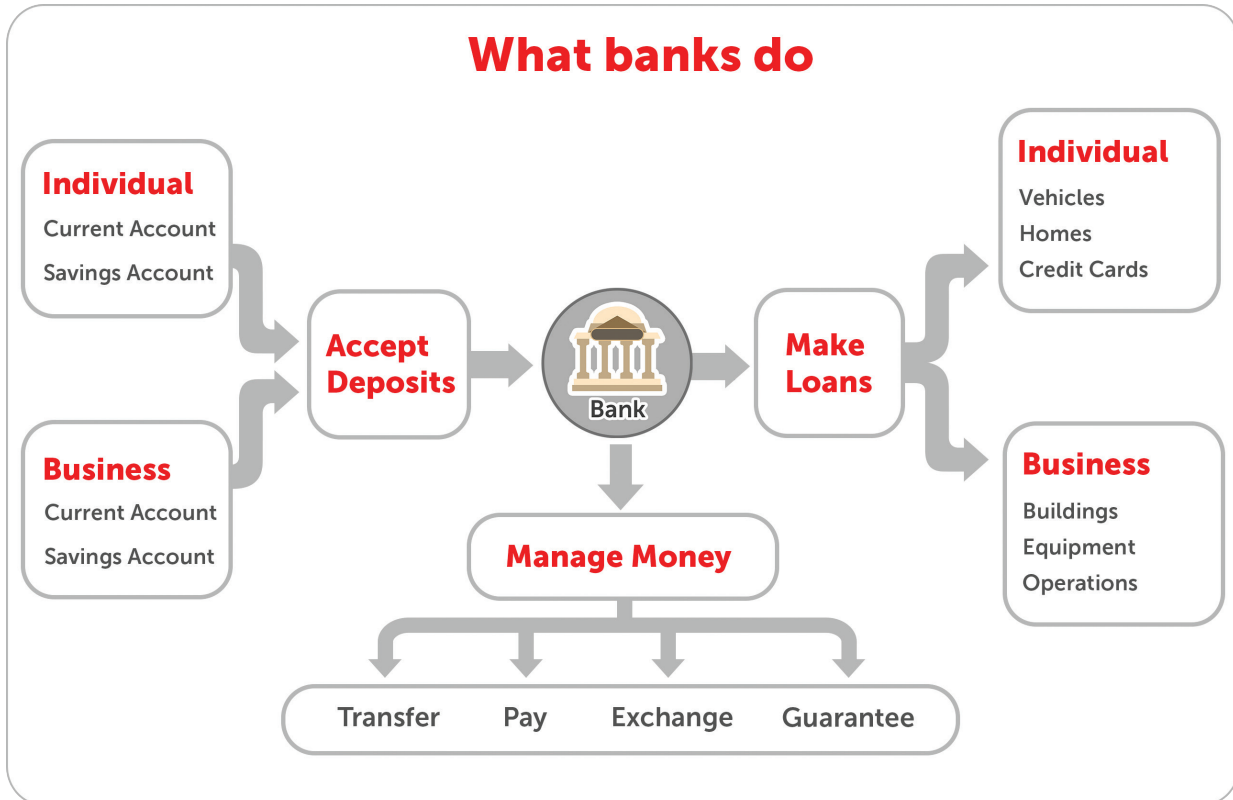
For more information regarding security features of other bank notes, go to:

<http://www.sbp.org.pk/BankNotes/banknotes.htm>



BANKING: WHAT BANKS DO

Banks provide many services for their customers. Three main services are (1) accepting deposits, (2) making loans and (3) managing money.



Accept deposits: Banks accept cash deposits from their customers and keep the money safe in customer accounts. Two main types of customer accounts for deposits are:

- ▶ **Current accounts:** These are accounts in which customers can freely deposit and withdraw money. Usually, customers do not earn a profit or mark-up on the money in deposit in current accounts.
- ▶ **Savings accounts:** These are accounts in which customers deposit money for a specified time period. Customers earn a profit or mark-up on the money deposited in savings accounts.

Make loans: Banks make loans to individuals and businesses.

- ▶ **Individual loans:** Banks make loans to individuals so they have money to buy or build a home or buy a vehicle or use for other purposes. When banks issue a credit card, they make a loan to the user each time that the user uses the credit

card to make a payment.

- ▶ **Business loans:** Banks make loans to businesses that enable them to buy or develop land, or buildings, or buy equipment, or use for other business purposes.

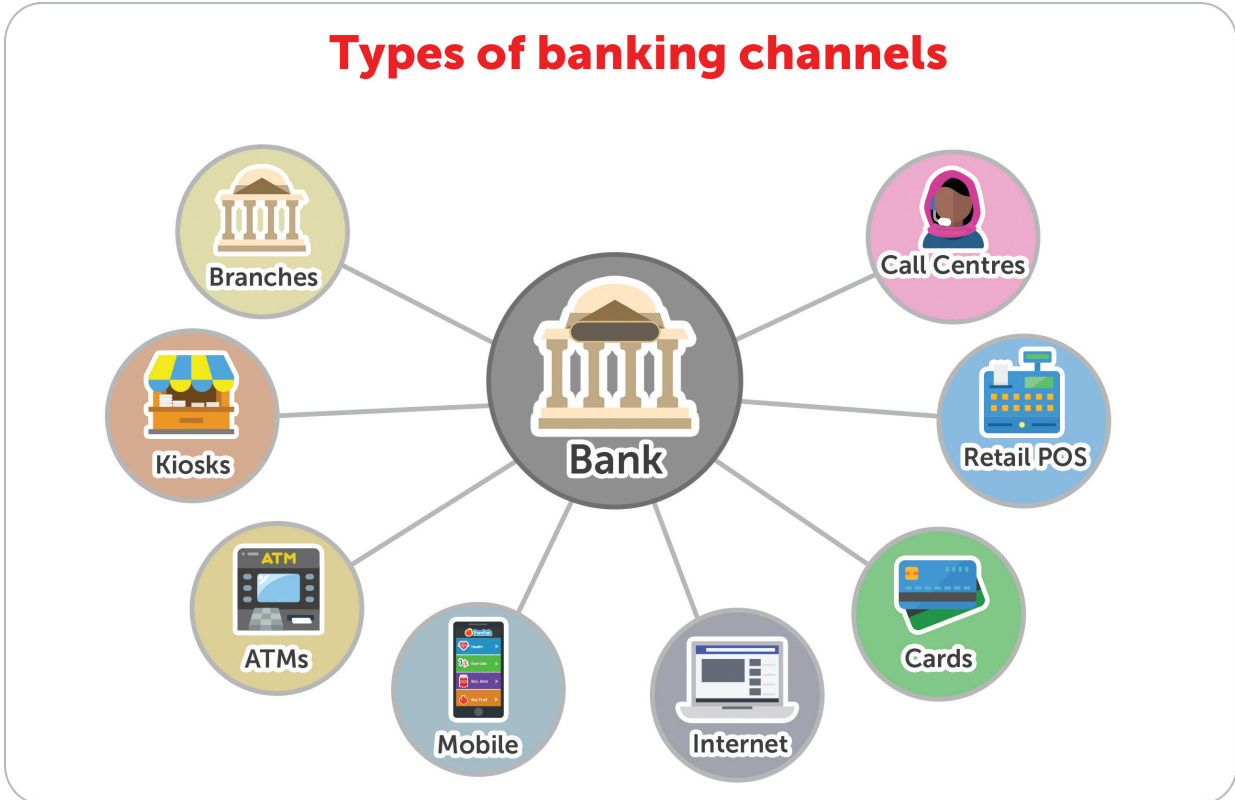
Manage money: Banks manage money for individuals and businesses.

- ▶ **Transfer:** Banks help customers transfer money including through mobile banking.
- ▶ **Pay:** Banks help customers make payments including through mobile banking and credit and debit cards.
- ▶ **Exchange:** Banks help customers exchange money in one currency for money in another currency.
- ▶ **Guarantee:** Banks issue guarantees of payment for business customers to help them grow their businesses.



BANKING: TYPES OF BANKING

A bank will reach its customers and provide them with services through many channels or pathways.



- ▶ **Branches:** Bank branches are physical centers that customers can visit to arrange loans, make deposits and manage money. They are staffed by bank representatives.
- ▶ **Kiosks:** Bank kiosks are small physical bank booths (usually in shopping centers and transport hubs), which customers can visit to make withdrawals and manage money. They are staffed by bank representatives.
- ▶ **ATMs:** Automated Teller Machines (ATMs) are machines which customers can visit to make withdrawals and manage money. They are NOT staffed by bank representatives. Usually, customers may visit them 24x7.
- ▶ **Mobile and Internet Banking:** Banks provide mobile apps and Internet banking websites. Customers can use their mobile phones, laptops and tablets to access their bank and arrange loans, make deposits and manage money.
- ▶ **Cards:** Banks issue plastic cards to their customers which may be used to make payments. Credit cards enable customers to make payments by borrowing money from the bank. Debit cards enable customers to make payments by withdrawing money they have deposited with the bank.
- ▶ **Retail POS:** Banks provide retail Point of Sale (POS) systems to shops, restaurants and other retailers. The retailers use these systems to charge money to customers who have bank cards or other bank payment systems. In this way, retailers and customers do not need to collect and pay cash.
- ▶ **Call Centers:** Banks operate customer call centers that customers may make deposits and manage money. They are staffed by bank representatives.

THE POMEGRANATE ORCHARD





Shereen and Safdar are visiting Nusrat and Ali in the village.

Ali says, “We already have one pomegranate tree. We would like to plant six more trees, but we are only left with 1,000 rupees. So will you loan us the rest of the money we need to buy six trees?”

Safdar says, “You have done a very good job so far. And my customers really like the fruit.

“Shereen and Ali, I will loan you the money. But you must sell me all the fruit for 200 rupees per kilo. And you need to get help from your mother.”

Ali and Shereen agree.

When Safdar goes to visit



some friends, Shereen and Ali sit down with Nusrat.

Ali says, “Ammi, we need your help. I can’t manage seven trees myself. My schoolwork is also taking more time and I love it.”

His mother says, “Beta, I will be happy to help.”

They then work out the numbers.

Ali says, “We will put in 1,000 rupees from our money and borrow 6,200 rupees from Safdar mamu.”

Shereen replies, “That is

Pomegranate Orchard Plan (Rs.)

Item	Present	Planned
PURCHASES		
1. Pomegranate sapling cost	-	1,200
2. Number of trees	1	6
3. Total money needed for purchase	-	7,200
SOURCES OF FUNDS		
4. Payment from Shereen & Ali	-	1,000
5. Borrowing from Safdar	-	6,200
6. Total money for purchase	-	7,200

Profit or Loss (Rs.)		
INCOME		
1. Pomegranates sold	210 kg	
2. Sales price per kg	Rs. 200	
3. Total income		42,000
EXPENSES		
4. Pomegranates transported	210 kg	
5. Transport expenses per kg	Rs. 100	
6. Total transport expenses		21,000
7. Loan repayment to Safdar		6,200
8. Total expenses		27,200
9. Profit		14,800

a good plan, Ali. Hopefully, we will have a profitable orchard.”

When Safdar and Shereen leave, Nusrat helps Ali work out how much money he will get.

Ali is very happy. “Even after we pay back Safdar mamu, we will have 14,800 rupees left.”

Nusrat says, “Beta, you know we have very little money. What will you do with your money?”

Ali says, “Ammi, I will buy school books and uniforms so you do not have to. I will

also save 5,000 rupees for the future.”

Nusrat is happy, “That is wise! The school expenses are necessary and it is very important to save.”

A few months later, the saplings have been planted and they are growing nicely.

Ali borrows his mother’s phone to call his cousin, “Shereen, how are you? I have some news. A man came to



visit us today. He said he will pay us 250 rupees for each kilo of fruit.”

Shereen does some quick calculations.

She says, “If we sell him the fruit, our profit will go up from 14,800 rupees to 25,300 rupees. And we can easily pay off my father’s loan.”

Ali replies, “I know. But, I said no to him. We had promised to

sell the fruit to Safdar mamu.”

Shereen agrees, “It is more important to keep our word than make some extra money.”

When the fruit is being picked, Safdar, Shereen and Daniyal come to visit.

Daniyal says, “What an amazing orchard! The fruit looks so healthy and beautiful.”



Ali replies, "I had a dream, but Shereen and you helped make it come true."

Safdar says, "Ali, it's true you had a dream. But you also talked about it, and then you both saved your money."

Shereen adds, "And Abba and Nusrat phuppo helped us so much."

Daniyal said, "Plus it took planning and work."

When the fruit is ready, Ali drives over with Khaleel Baig to deliver it to the store.

Safdar says to him, "Well

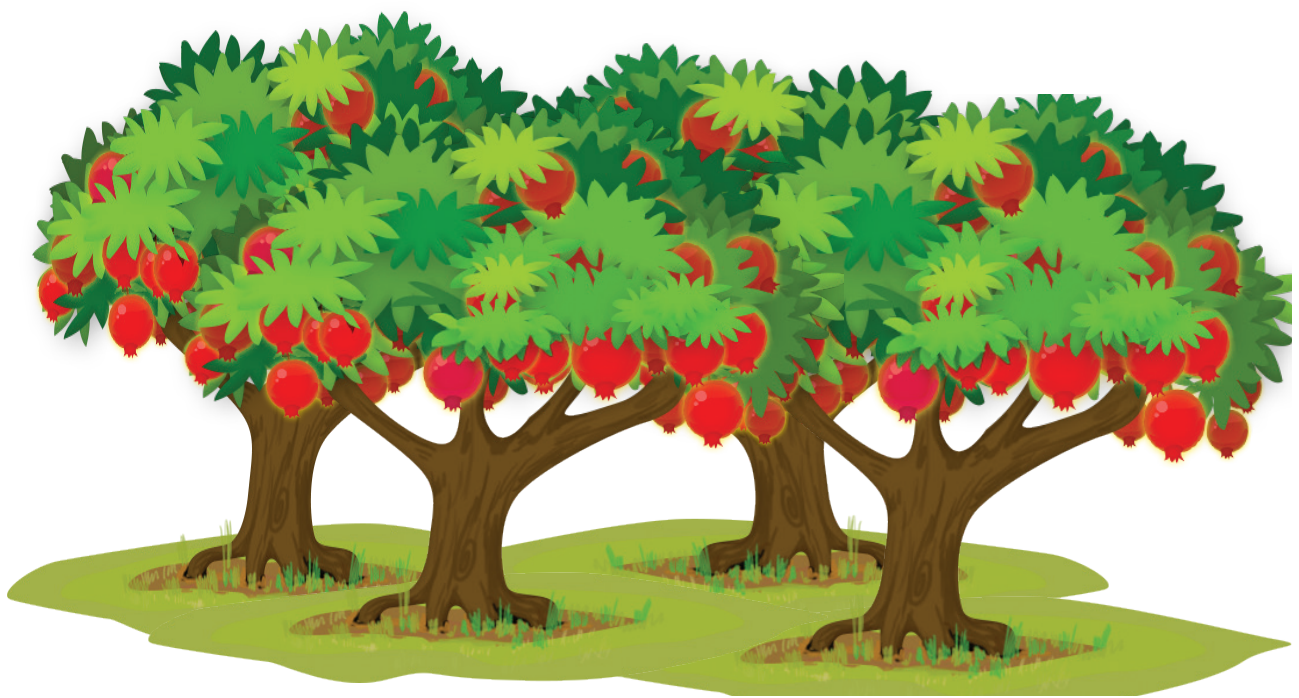
done, Ali. I heard you will be spending some of the money to buy books."

Ali says, "Yes, Safdar mamu. I want to get really good at math, science and different languages. They have already helped me so much."

That evening, Ali stays with his cousins in town. They make some fresh pomegranate juice.

Shereen says, "Look at that delicious, healthy juice from our own pomegranate orchard!"

THE POMEGRANATE ORCHARD WORKBOOK





INCOME: SOURCES OF INCOME

An individual can earn money from different sources. Here are some important sources of income:

PROFITS FROM BUSINESS

The money left over from the income of a business after all its expenses have been paid.

e.g.

Safdar's fruit stall made a total income of Rs. 100,000 last month. After paying expenses of Rs. 45,000, he was left with a **profit from business** of Rs. 55,000.

EARNINGS FROM INVESTMENTS

The money you receive in return for having invested your money in, for example, a bank deposit, a property or shares of a company.

e.g.

Your uncle owns a house in the city which he gives out for rent for Rs. 10,000 per month.

WAGES

The regular money you receive by an employer in exchange for work done. Also referred to as a salary.

e.g.

Rabia receives Rs. 20,000 a month from the school she works at as a teacher.

GIFTS

An amount of money or other items you receive without the expectation of providing something in return.

e.g.

Daniyal's grandmother gave him a gift of Rs. 250 on Eid.

INCOME: SHEREEN'S SOURCES OF INCOME



Can you calculate Shereen's income by source and total income?

Shereen has:

- ▶ Pocket money of Rs. 350
- ▶ Earnings of Rs. 576 from selling pomegranates
- ▶ Earnings of Rs. 100 on a bank deposit of Rs. 1,000
- ▶ Eidi of Rs. 600

	Source	Income (Rs.)
1.	Profits from business	
2.	Earnings from investments	
3.	Wages	
4.	Gifts	
Total income		

The solution to this exercise can be found on page 83

INCOME: YOUR SOURCES OF INCOME



What are some of your, your family members' or your friends' sources of income for one month?

	Details
1.	Profits from business
2.	Earnings from investments
3.	Wages
4.	Gifts



BORROWING: BASIC CONCEPTS

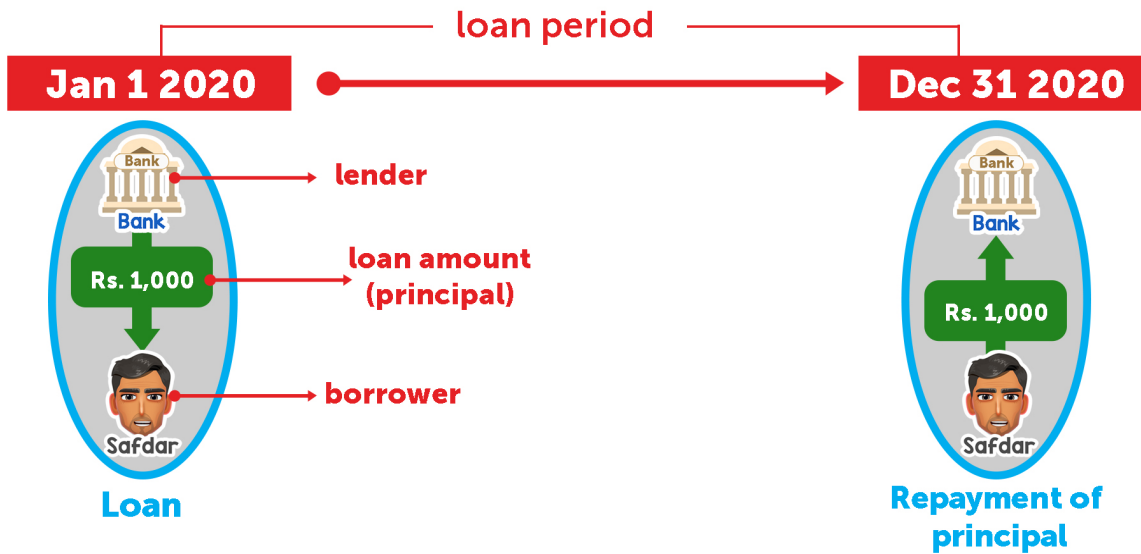
Borrowing involves a loan of money by a lender to a borrower for a specified period. The borrower must return that money in the specified period.

Scenario

1



"Safdar, we will lend you Rs. 1,000 for 1 year. You must pay us back this money in 1 year."



Important Terms ☰

Lender	The person who lends the money and must be repaid.
Borrower	The person who borrows the money and must repay it.
Loan	The act of giving money by a lender to a borrower that must be repaid in a specified time.
Loan amount (principal)	The amount of money lent.
Loan period	The period at the end of which the borrower must repay the loan.
Loan repayment	The paying back by the borrower of the loan amount (or principal).
Outstanding principal amount	The original principal or loan amount LESS the amount that has already been paid back.

BORROWING: BASIC CONCEPTS

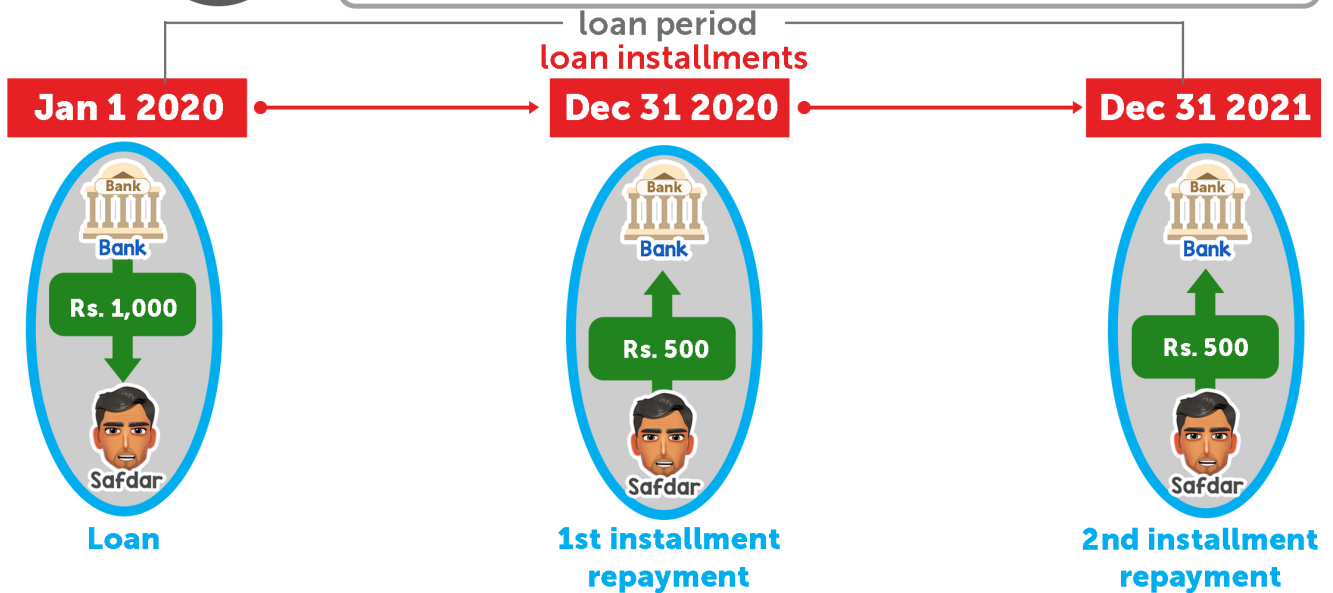


Depending on the agreement between the lender and the borrower, a loan amount must be repaid either at one time or in smaller amounts over a specified time (installments).

Scenario
2



"Safdar, we will lend you Rs. 1,000 for 2 years. You must pay us back this money in **2 installments.**"



1. Sometimes a lender will want the entire loan amount (principal) repaid altogether at the end of the loan period.
2. Other times, a lender may agree that the loan amount (principal) is paid in small amounts over specified times (installments).
3. When the loan amount (principal) is required to be paid in installments, the sum of the amounts paid in installments is equal to the entire loan amount (principal).



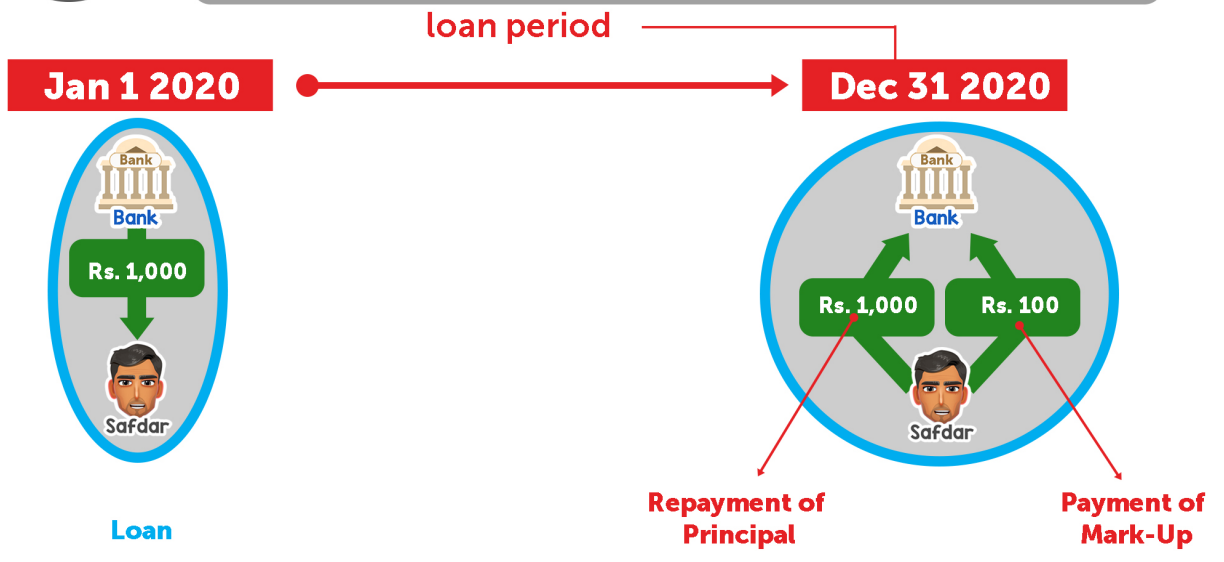
BORROWING: BASIC CONCEPTS

In most business loans, the lender will want the borrower to repay the loan amount (principal) PLUS a 'mark-up' or interest on the loan amount.

Scenario
3



"Safdar, we will lend you Rs. 1,000 for 1 year. You must pay us back this money in 1 year with **10% mark-up.**"



The mark-up or interest on the loan amount is expressed as a percentage of the loan amount, payable over a period.

For example, if a lender gives Rs. 1,000 for one year with a mark-up of 10% per annum, the borrower will, after one year, need to:

1. Repay the loan amount of Rs. 1,000 plus
2. Pay a 10% markup of the loan amount (principal) (i.e., Rs. 100).

BORROWING: THE POMEGRANATE ORCHARD



Shereen and Ali want to buy 6 trees.

Without looking at the story, help them calculate how much they will need to borrow from Safdar.

Pomegranate Orchard Plan (Rs.)			
	Item	Present	Planned
PURCHASES			
1.	Pomegranate sapling cost	-	1,200
2.	Number of trees	1	6
3.	Total money needed for purchase	-	7,200
SOURCES OF FUNDS			
4.	Payment from Shereen & Ali	-	1,000
5.	Borrowing from Safdar	-	
6.	Total money for purchase	-	

The solution to this exercise can be found on page 83



BORROWING: CALCULATING PROFIT OR LOSS

Shereen and Ali want to pay off Safdar and calculate their profit. The loan amount is Rs. 6,200 and the mark-up is 0%.

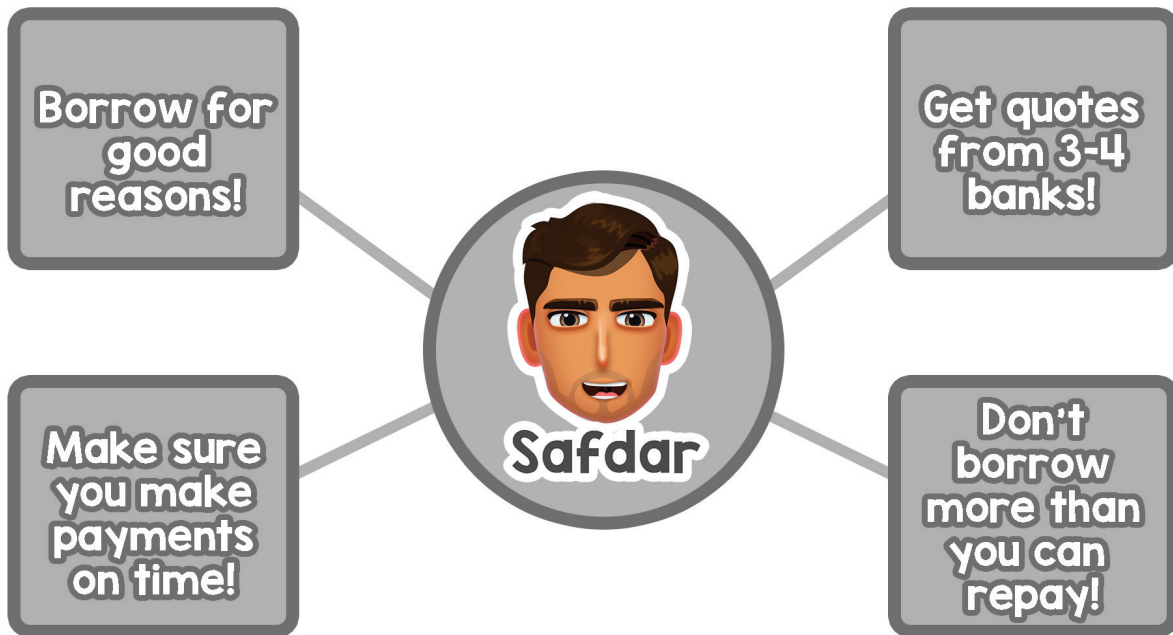
Without looking at the story, help them calculate their profit.

Profit or Loss (Rs.)			
INCOME			
1.	Pomegranates sold	210 kg	
2.	Sales price per kg	Rs. 200	
3.	Total income		Rs. 42,000
EXPENSES			
4.	Pomegranates transported	210 kg	
5.	Transport expenses per kg	Rs. 100	
6.	Total transport expenses		Rs. 21,000
7.	Loan repayment to Safdar		<input type="text"/>
8.	Total expenses		<input type="text"/>
9.	Profit		<input type="text"/>

BORROWING: SAFE BORROWING



When you borrow money, you make a promise to repay it. You may also make a promise to pay the mark-up. It is important to follow some guidelines when borrowing money.



Borrow for good reasons: Do not borrow money to spend on unnecessary expenses. Also, do not borrow money to invest in businesses in which you may not get the money back.

Compare for better mark-up rates: It is smart to talk to different banks before borrowing money. Before borrowing money, you should check with 3-4 banks about:

- how much time you will have to repay,
- how many installments in which you must repay, and
- the mark-up rate you must pay.

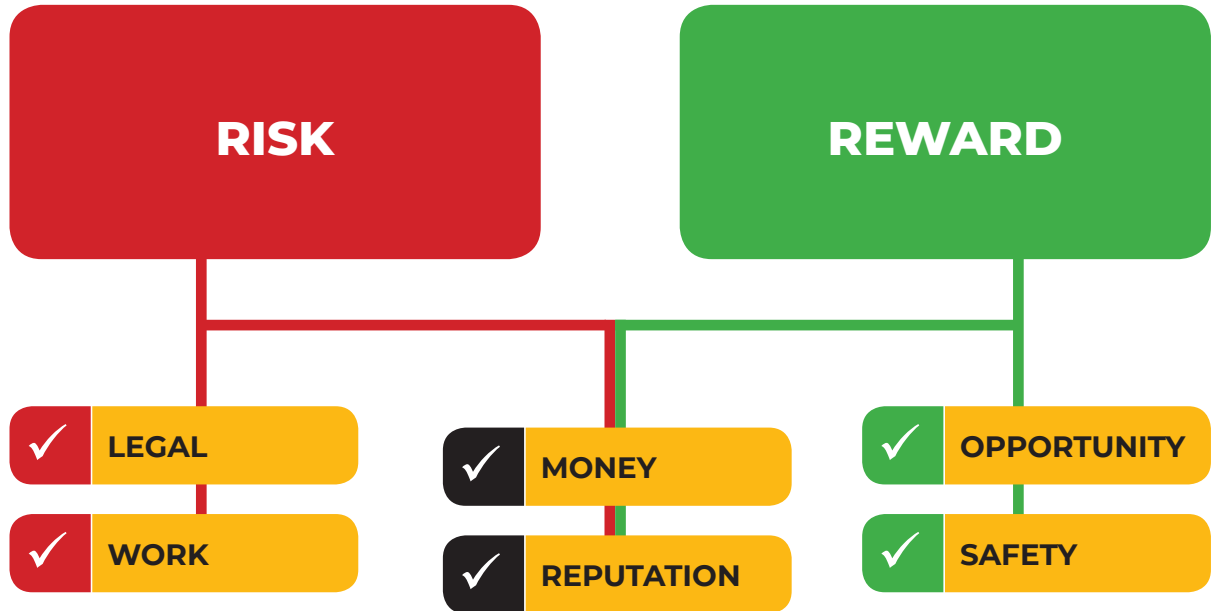
Don't borrow more than you can repay: You should borrow only so much money as you can afford to pay back. For example, your monthly income is Rs. 10,000, and expenses are Rs. 8,000. If you take a loan with a monthly repayment of Rs. 3,000, it is likely that you will not be able to repay it. In this case, your monthly loan installment should not be more than about Rs. 1,000.

Ensure timely repayment: Make sure that you have the money to repay the loan installment and pay the mark-up on the exact date that it is owed. If you do not make timely repayments, banks will not lend money to you in the future.



RISK AND REWARD

In business, you take a risk and expect a reward. What is the relationship between risk and reward?

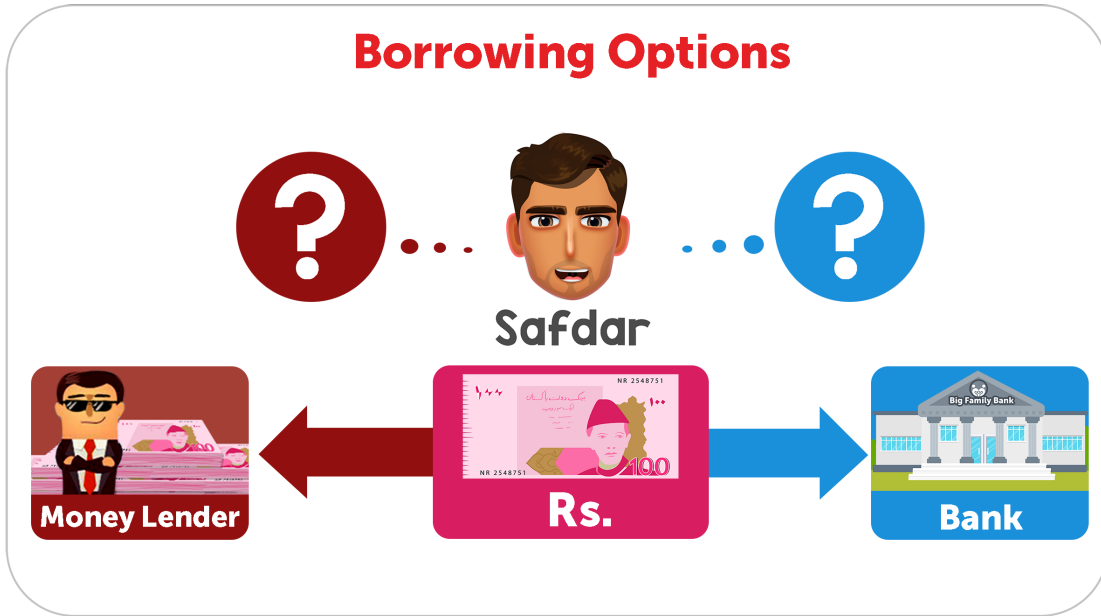


- ▶ Taking a risk does not always lead to a reward.
- ▶ Only take a risk after planning and calculation.
- ▶ Don't take risks that you cannot afford.
- ▶ Your reward should be greater than the risk you take.
- ▶ Take calculated, affordable risks that lead to important rewards.



BORROWING: MONEYLENDER VS. BANK

Individuals or businesses can borrow money from money lenders.



Let's look at the difference between borrowing from money lenders and borrowing from banks:

	Money Lenders	Banks
Smaller loans	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Speed	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Lower mark-up rates	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Use of legal system	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Smaller loans: Money lenders usually focus on small amounts of loans. They give small personal loans that can be used for payments such as car repairs and rent.

Speed: The approval time for money lenders is usually shorter than banks. Banks take time to conduct background checks. Money lenders do not conduct such background checks.

Lower rates: The mark-up rates of banks are much lower than that of money lenders. Also, it is easier to compare mark-up rates of banks as there is more information.

Use of legal system: If banks are not repaid, they will try to use the legal system to get their money back. Money lenders may use physical violence to get their money back.



BORROWING: CALCULATING MARK-UP AND LOAN AMOUNT

Can you answer the following borrowing related questions?

- 1.** Safdar borrows Rs. 10,000 for 1 year. What is the loan amount (principal)?

.....
.....

- 2.** Safdar borrows Rs. 8,000 for 1 year with a mark-up of 12% per annum. What is the mark-up he must pay?

.....
.....

- 3.** Safdar borrows Rs. 9,000 for 1 year with a mark-up of 10% per annum. What is the total amount he must pay?

.....
.....

- 4.** Safdar borrows Rs. 9,000 for one year, which he must repay in two equal installments. What is the amount of each installment?

.....
.....

- 5.** Safdar borrows Rs. 8,000 for 1 year with a mark-up. After one year he pays a total amount of Rs. 8,800. What is the per annum mark-up?

.....
.....



A MAP FOR EARNING: THE FOUR 'BUTS'

It's important to earn money, but it is essential that we do not blindly run down the path of making money.

A map for earning money and the four "buts"



You should also make sure you are happy & you grow as a person – Making money should not be your only goal. You may also want to seek happiness and personal growth; e.g., staying healthy, maintaining relationships.

You should also help others & protect nature – One should always take the opportunity to help others. You can spend money and put in effort to help others and protect nature.

You must act honestly & keep your word – If you ever have to choose between making money and acting honestly, you should choose to act honestly.

You must spend wisely for good purposes – Don't waste all your money on unnecessary expenses. Save some for difficult times.



GLOSSARY

Assets

Any resource that is owned by a person or business that has monetary value of its own and the sale of which can generally be used to meet loan payments.

ATM

An Automated Teller Machine or ATM is a machine operated by a bank that allows you to deposit or withdraw money.

Bank Account

The record which shows how much money a customer has with a bank.

Banking Channels

A bank will reach its customers and provide them with services through many 'banking channels' or pathways. These include branches, kiosks, Automated Teller Machines (ATMs), mobile apps, Internet banking websites, credit and debit cards, retail Point of Sale (POS) systems and customer call centers.

Borrowing

The money or any other item of value that you receive for your use that you plan to give back to the giver. For example, you could borrow Rs. 5,000 from a bank and return that money to the bank a year later.

Branchless Banking

Customers can use banking services without needing to go to their bank branch, using technologies such as automated teller machines (ATMs), debit cards and mobile phones.

Break Even

Break even means, in relation to a business, the point at which income and expenses equal each other. Often, in the early years of a business, expenses will be more than income. Once there are enough customers and

income increases, a well-managed business will get to break even. At this point, income and expenses equal each other. Business owners plan for businesses to get to break even as fast as possible.

Credit Cards

Banks issue plastic cards to their customers which may be used to make payments. Credit cards enable customers to make payments by borrowing money from the bank. Debit cards enable customers to make payments by withdrawing money they have in deposit with the bank.

Current Account

A bank account offered by banks that allows customers to quickly transfer and withdraw money. Usually, deposits in current accounts do not earn money for the customer.

Debit Cards

Banks issue plastic cards to their customers which may be used to make payments. Debit cards enable customers to make payments by withdrawing money they have in deposit with the bank. Credit cards enable customers to make payments by borrowing money from the bank.

Deposit

Money put into a bank by a customer for safe-keeping. Some deposits earn a profit for the customer.

Earnings

The money or other item of value you receive for services, benefits or investments you provide. Earning is a type of income. For example, you may have a job in which your earnings as wages are Rs. 20,000 per month. As another example, you may invest Rs. 10,000 in a government bond in which you receive earnings as a mark-up or

profit of Rs. 1,000 per year.

Expenses

The money you spend. For example, an individual's expenses may include house rent, food and sweets. As another example, a business' expenses may include office rent and salaries of employees.

Financial Literacy

Financial literacy refers to the skill of a person in handling financial and commercial matters, such as in relation to earning, spending, saving, borrowing, investing, buying, selling, budgeting and planning. A person who is financially literate will make better decisions and plans in relation to financial matters.

Gift

The money or other item of value that you receive from a giver who does not want anything back. For example, people give gifts to each other at Eid or other special days.

Income

The money or other item of value you receive. Income may be in the form of: (1) wages from a job; (2) profits from a business; (3) earnings from an investment or bank deposit; (4) gifts from someone; and (5) benefits from the government. For example, you could have a monthly income of Rs. 20,000 from a job.

Installment or Loan Installment

In the case of a loan, an installment represents a part of the loan amount that must be repaid on a specified time. For example, a lender may lend on January 1 Rs. 8,000 and want the loan amount to be repaid in four equal installments at the end of each calendar quarter. In this case, the borrower must repay the money in four installments: (1) Rs. 2,000 on March 31; (2) Rs. 2,000 on June 30; (3) Rs. 2,000

on September 30; and (4) Rs. 2,000 on December 31.

Interest

'Mark-up' or interest is a per annum rate applied to a loan that represents the lender's profit or earnings. For example, a lender may give Rs. 12,000 for 1 year with a mark-up of 10% per annum. In this case, after one year the borrower will need to (1) repay Rs. 12,000 as the loan amount PLUS (2) pay Rs. 1,200 (10% of 12,000) as the mark-up or interest.

Investment

The money that you use to make more money. For example, an individual may put money into a business as an investment. Buying shares of companies and government bonds are also types of investment.

Liabilities

A liability is a financial debt, loan or obligation owed by a person or company to another party, and is settled through the transfer of money, assets or goods and services.

Loan

The amount of money that is lent by one person to another. For example, a bank may make a loan to a person so that the person can buy a motorcycle. The amount that is lent is also called the 'principal amount' of the loan.

Loan Amount

The loan amount (also called 'principal') of a loan is the amount of the loan. For example, if a lender lends someone Rs. 12,000, the loan amount or principal is Rs. 12,000.

Loan Period

The period of time over which a loan must be repaid. For example, a lender may lend on January 1 Rs. 8,000 and want the loan amount to be repaid in four equal installments at the end of each calendar quarter. In this case, the

loan period is January 1 – December 31 or one year.

Loss

The amount of money you lose in a business. For example, if your business has income of Rs. 5,000 and expenses of Rs. 7,000, you will have a loss of Rs. 2,000. If you gain money in a business, the amount of money you gain is called a 'Profit'.

Mark-Up

'Mark-up' or interest is a per annum rate applied to a loan that represents the lender's profit or earnings. For example, a lender may lend for one year Rs. 12,000 with a mark-up of 10% per annum. In this case, after one year the borrower will need to (1) repay Rs. 12,000 as the loan amount PLUS (2) pay Rs. 1,200 (10% of 12,000) as the mark-up or interest.

Mobile Banking

This is a service offered by banks that allows customers to use their mobile phones to use banking services such as transferring money.

Negotiate

Agreement of terms or price through a discussion.

Necessary Expenses

Expenses that are necessary or important and that cover things you need. For example, an individual's necessary expenses may include expenses relating to food and rent.

Outstanding Principal Amount

The amount of money that a lender loans to a borrower is called the 'principal amount'. The 'outstanding principal amount' of a loan is the original principal amount less the amount that has already been paid back. For example, if a lender has loaned Rs. 1,000 to a borrower, and the borrower has repaid Rs. 600 of that original principal amount, the

outstanding principal amount will be Rs. 400.

Pocket Money

It is a small amount of money regularly given to children, by their parents, to spend or save for their wants. This is also known as an 'allowance' and given on a weekly or monthly basis.

Principal

In the case of a loan, the loan amount (also called 'principal') of a loan is the amount of the loan. For example, if a lender gives someone Rs. 12,000, the loan amount or principal is Rs. 12,000.

Profit

The amount of money you gain in a business. For example, if your business has income of Rs. 5,000 and expenses of Rs. 4,000, you will have a profit of Rs. 1,000. If you lose money in a business, the amount of money you lose is called a 'Loss'.

Profit Share

It is the dividing of profits made by a business or company based on pre-determined percentages between investors. This investment can either be financial or work; in terms of time and/or effort.

Sapling

A young tree, especially one with a slim trunk.

Savings

The money or other item of value that you own and keep for use at a later time. For example, if in one month you have income of Rs. 1,000 and you have expenses of Rs. 800, you will savings of Rs. 200. You could save money at home or in a bank.

Savings Account

A bank account offered by banks that allows customers to save money and earn a profit on the saving.

Savings Goal

A savings goal is a goal someone sets to save money. A well thought out savings goal will include: (1) purpose (what you want to buy with the savings); (2) amount (how much you want to save); and (3) time (by when you want to have reached the savings amount)

Savings Plan

The plan to save some money. A savings plan has a goal (i.e., how much money you want to save over a period of time). The goal may be met over a period of time. For example, if your goal is to save Rs. 3,000 and you save Rs. 1,000 every month, you will meet your goal in three months.

Terms

The details at which a vendor will sell you something. For example, a seller may sell you a schoolbag for Rs. 500. She may say she can only give it to you one week later. She may also say she will give you the money back if there is something wrong with it. The timing of the sale of the bag and the promise to give back the money are the 'terms' of the sale.

Transport

The act of moving things from one place to another. For example, moving fruits from the farm to shops in the city to be sold.

Unnecessary Expenses

Expenses that are unnecessary or unimportant. These expenses usually are for things you 'want' but may not 'need'. For example, an individual's unnecessary expenses may include expenses relating to sweets and toys.

Wages

An amount of money an employee is paid based on the number of hours or days they have worked.

Withdrawal

Money taken out by a customer from

a bank. Any money withdrawn by a customer comes out of the customer's bank account.



Expenses: Shereen's unnecessary expenses

Shereen's Savings Goal = Rs. 300		
Income (Rs.)	450	
Expenses	Before cutting out unnecessary expenses (Rs.)	After cutting out unnecessary expenses (Rs.)
1. School book	125	125
2. Sweets	25	0
3. New toy	25	0
4. Toothbrush	25	25
5. Total Expenses	200	150
6. Total Savings	250	300

Expenses: Will Ali make money?

Earns Money

Does NOT Earn Money

- 1. Ali buys a pomegranate tree because it is pretty.

- 2. Ali buys the tree because pomegranates are his favorite fruit.

- 3. Ali buys the tree to sell the fruit.

- 4. Ali buys the tree to sell it to someone else.

- 5. Ali buys the tree to gift it to his mother.



Expenses: What to buy at the nursery?

1. If their plan is to SAVE money, what should they buy? **SEEDS**
2. If their plan is to get FRUIT quickly, what should they buy? **A FULL-GROWN TREE**
3. If their plan is to SELL fruit and NOT spend too much money, what should they buy? **A SAPLING**

Savings: Shereen's savings plan

Shereen's Savings Goal = Rs. 900				
	Period	Now (Rs.)	Month 1 (Rs.)	Month 2 (Rs.)
1.	Income	-	450	450
2.	Expenses	-	200	200
3.	Savings per month	-	250	250
4.	Total savings	300	550	800

Savings: Shereen's savings plan revised

Shereen's Savings Goal = Rs. 900				
	Period	Now (Rs.)	Month 1 (Rs.)	Month 2 (Rs.)
1.	Income	-	450	450
2.	Expenses	-	150	150
3.	Savings per month	-	300	300
4.	Total savings	300	600	900



Purchasing: Smart buying

	Quality	Quantity	Price	Terms
1. "Your clothes will be ready in one week."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. "I will sell this to you for Rs. 300."	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. "If the TV does not work, I will fix it for free."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. "I want the most delicious mangoes."	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. "You must pay me for the clothes today."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
6. "I want a dozen mangoes."	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. "I will take the TV to your house."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Purchasing: Pricing and terms

1. Was it a good idea to get prices and terms of payment from more than one driver? If so, why?

It is always good to have more than one option when making a purchase. You should ask for prices but also for what terms they come with.

2. If the children have money to pay, which van should they hire? Why?

They should hire Salim Omar (yellow van). His price is the cheapest, even though he wants payment on picking up the fruit.

3. If they have no money to pay until they get payment from Safdar, which van should they hire? Why?

They should hire Khaleel Baig (white van). His price is the cheapest amongst the vans that will take payment after delivering the fruit.

They cannot hire Salim Omar (yellow van). His price is the cheapest, but he wants payment when he picks up the fruit. The cousins don't have the money at the time.



Income: Calculating profit and loss

Income		
1. Pomegranates sold	30kg	
2. Sales price per kg	Rs. 200	
3. Total income		6,000
Expenses		
4. Pomegranates transported	30kg	
5. Transport expenses per kg	Rs. 100	
6. Total transport expenses		3,000
7. Pomegranate sapling cost		1,200
8. Total expenses		4,200
9. Profit		1,800

Investment: Fruit business profit sharing

Should the cousins share profit:

1. Based on investment only?
2. Based on work only?
3. Based on investment *and* work?

Explain.

This is a question that needs judgment. You may decide one way or another. We believe that Shereen and Ali were right in dividing the profits by financial investment plus work. Ali's extra work should be rewarded. Therefore, dividing the profits by financial investment plus work is more fair. This is because Ali has put something extra into the business. He takes care of the trees and harvests and transports the fruit. He should receive an extra share of profits for his work.



Savings: Bank vs. home

	At Home	In a Bank
1. Safety	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Makes money	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3. Easy to transfer money to another city	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Easy to get to money	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Where should she save her money?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Banking: Knowing the State Bank

	True	False
1. The State Bank issues Pakistan's currency (rupees).	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The State Bank loans money to businesses and individuals.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3. The State Bank manages Pakistan's foreign currency reserves.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The State Bank sets electricity and gas prices in Pakistan.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5. The State Bank owns all the banks in Pakistan.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
6. The State Bank regulates all the banks in Pakistan.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- The State Bank issues Pakistan's currency and controls the amount of currency in circulation.
- The State Bank does not loan money to businesses and individuals. It regulates banks and other financial institutions which loan money.
- The State Bank manages and invests Pakistan's foreign currency reserves.

- The State Bank is not responsible for setting electricity and gas prices in Pakistan.
- The State Bank does not own the banks in Pakistan. It regulates banks and other financial institutions in the country.
- The State Bank regulates and supervises banks and other financial firms to make sure that they are managed soundly.



Income: Shereen's sources of income

Source	Income (Rs.)
1. Profits from business	576
2. Earnings from Investments	100
3. Wages	0
4. Gifts	950
5. Total Income	1,626

Borrowing: The pomegranate orchard

Pomegranate Orchard Plan (Rs.)		
Item	Present	Planned
PURCHASES		
1. Pomegranate sapling cost	-	1,200
2. Number of trees	1	6
3. Total money needed for purchase	-	7,200
SOURCES OF FUNDS		
4. Payment from Shereen & Ali	-	1,000
5. Borrowing from Safdar	-	6,200
6. Total money for purchase	-	7,200



Borrowing: Calculating profit or loss

INCOME		
1. Pomegranates sold	210 kg	
2. Sales price per kg	Rs. 200	
3. Total income		42,000
EXPENSES		
4. Pomegranates transported	210 kg	
5. Transport expenses per kg	Rs. 100	
6. Total transport expenses		21,000
7. Loan repayment to Safdar		6,200
8. Total expenses		27,200
9. Profit		14,800

Borrowing: Calculating mark-up and loan amount

- Safdar borrows for 1 year Rs. 10,000. What is the loan amount (principal)? **Rs. 10,000**
- Safdar borrows for 1 year Rs. 8,000 with a mark-up of 12% per annum. What is the mark-up he must pay? **Rs. 960**
- Safdar borrows for 1 year Rs. 9,000 with a mark-up of 10% per annum. What is the total amount he must pay? **Rs. 900**
- Safdar borrows for 1 year Rs. 9,000, which he must repay in two equal instalments. What is the amount of each instalment? **Rs. 4,500**
- Safdar borrows for 1 year Rs. 8,000 with a mark-up. After one year he pays a total amount of Rs. 8,800. What is the per annum mark-up? **10%**

A PROJECT OF THE STATE BANK OF PAKISTAN
& THE ASIAN DEVELOPMENT BANK