Module 1.3

Financial Education

Chapter 1

Wise money management

NEW TREND

Citizenship, Economics and Society

LING KEE PUBLISHING CO. LTD.

Lesson Warm-up

Why do we need to learn about money management?

Charlie is a F.1 student. His expected income and spending for the coming week are as follows.

Lesson Warm-up

Lesson Warm-up

Why do we need to learn about money management?

1. What financial problem might Charlie face?

A. Income exceeds spending
B. Income equals spending
C. Spending exceeds income

C

Lesson Warm-up

Why do we need to learn about money management?

2. According to Charlie's case and your own knowledge, think about the reasons why we need to learn about money management. Put a ✓ into the corresponding box(es).

- [x] Having enough money for living
- [x] Knowing what to buy first
- [x] Being able to donate to those in need
- [x] Avoiding borrowing money
- [x] Being able to review our financial situation regularly
- [x] Saving money for unexpected needs
- [x] Learning to treasure what we have
- [ ] Other(s):__________________

Contents

Values

- Rationality
- Self-discipline
- Simplicity
- Responsibility

Pre-class Video Video (Money Management)

- https://youtu.be/7Sm2IPVN0Tw?si=Ko1LXpcNCyhRTqJ4

A Various uses of money

1. What is money?

Money is a tool to measure the value of goods and services, as well as a medium of item exchange. In our daily lives, we use paper money and coins. In addition, we may use **credit card**, **Octopus** and other types of **electronic currencies** for transaction.

Keyword

◆ Credit card

It is a type of noncash payment method. Cardholders can make purchases without paying cash immediately. They are only required to pay the bill on the due date.

Keyword

◆ Octopus

It is a widely-used electronic payment system in Hong Kong.

Keyword

◆ Electronic currency

It is a payment system using electronic means instead of cash during transactions.

A Various uses of money

2. Primary uses of money

① **Consumption**

It refers to spending money to buy goods or services to fulfil our desires.

2. Primary uses of money

② **Saving**

- It refers to reserving and accumulating money for future needs.
- Most people nowadays put their money into a bank savings account to gain **interest** income.

Keyword

◆ Interest

It is the reward that a capital owner receives from a borrower for lending out their funds.

2. Primary uses of money

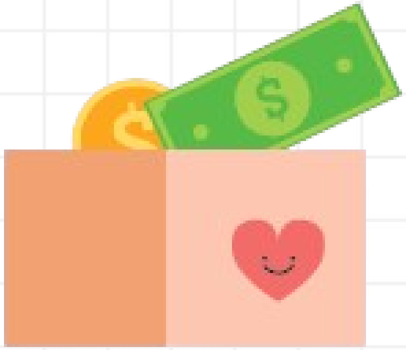
③ Investment

- It means to put money into things that can increase in value, such as real estate, antiques, foreign currency, in order to achieve wealth growth.

2. Primary uses of money

④ **Donation**

- It means to give our own money to people in need, such as supporting flag-selling events, sponsoring orphans, and so on.
- Sharing wealth with others helps to build a caring and inclusive society.



In-class Video (Cha-Ching: Earn, Save, Spend, Donate)

- https://youtu.be/Ll3dcNm9fO4?si=FrDlW1GRVrtqW3tP

B Principles for using money

1. <u>Distinguishing between “needs” and “wants”</u>

Before buying something, we should be able to tell the difference between “needs” and “wants”.

1. Distinguishing between "needs" and "wants"

1. Distinguishing between ‘needs’ and ‘wants’

At the same time, we should prioritise our spending based on importance. It is crucial to allocate our money to essential items before spending on non-essential ones. If we spend casually, we may find it difficult to afford necessities and disrupt our normal lives.

In-class Video (Wants and Needs)

- https://youtu.be/_O4KnhpEI3w?si=yFIeVv4kmv4fn_cX

In-class Video (Budgeting for Teens)

- https://youtu.be/7_RglQhwh1I?si=T55RrIsGjliKyI8_

Think About It

Think About It

Ivy is going to take part in the school sports event. In your opinion, which item(s) do you think she should spend her $100 on? And why?

Students can start by categorising the items shown in the picture into "needs" and "wants" and then decide where to spend Ivy's money. For example, clothes and shoes are items that are necessary to wear every day and fall under the category of "needs". On the other hand, fancy handbags and dolls are things that Ivy desires to have and fall under the category of "wants". She is going to take part in the school sports event, so she should prioritise spending the money on sports shoes first.

2. Spending based on income

Spending based on income means organising expenses according to one's income level. It helps us strike a balance between income and expenses as well as achieve financial stability, as we can avoid over-spending.

3. Using money when necessary

If we have plenty of money but do not know how to use it correctly, we are only slaves to our wealth. Thus, we should follow the principle of using money when necessary and make good use of our financial resources.

4. Developing a habit of saving

We should develop the habit of saving first and spending later. By setting aside a fixed amount each month and spending the rest on necessary expenses, we can reach our saving goals, and avoid financial crisis in case of unexpected situations.

▲ We can use our savings to deal with emergencies, even if someone in our family encounters an unexpected event. This can reduce the feeling of helplessness.

Think About It

Do you have a habit of saving? How would you use your savings? Free answer.

Quick Recap

We have to __manage__ expenses according to income, which means to make both ends meet. In addition, we have to follow the principle of __using money when necessary__ and avoid becoming a miser. We should also cultivate a habit of __saving__ to ensure that there is enough money to deal with emergency.

We spend money to fulfil our basic needs, but buying too much may lead to **over-consumption** and cause problems. Thus, **before making a buying decision, we should think about what we really need, how much we can afford, what benefits the spending will bring, and the original plan of shopping. In this way, we can all become smart consumers.**

Keyword

◆ Over-consumption

It refers to consumption that exceeds the economic capacity of individuals or society. This consumption pattern can lead to debt problems, resource waste, environmental pollution, and other issues for individuals or the entire economic system, which is not conducive to sustainable development.

Interactive Learning Activity

How to avoid over-consumption?

While consumption is necessary for life, unthinking purchases of non-essential items can result in over-consumption. Over-consumption not only wastes money but can also lead to debt. Therefore, before making purchasing decisions, we must weigh the importance of the product and our personal financial capacity. In fact, consumption is not the sole path to happiness. It is joyful when we help others. When time and budget allow, we can donate or participate in volunteer work.

Interactive Learning Activity

How to avoid over-consumption?

1. Which type of excessive consumption do the following consumption patterns belong to?

- Vanity consumption
- Impulse consumption
- Crazy consumption

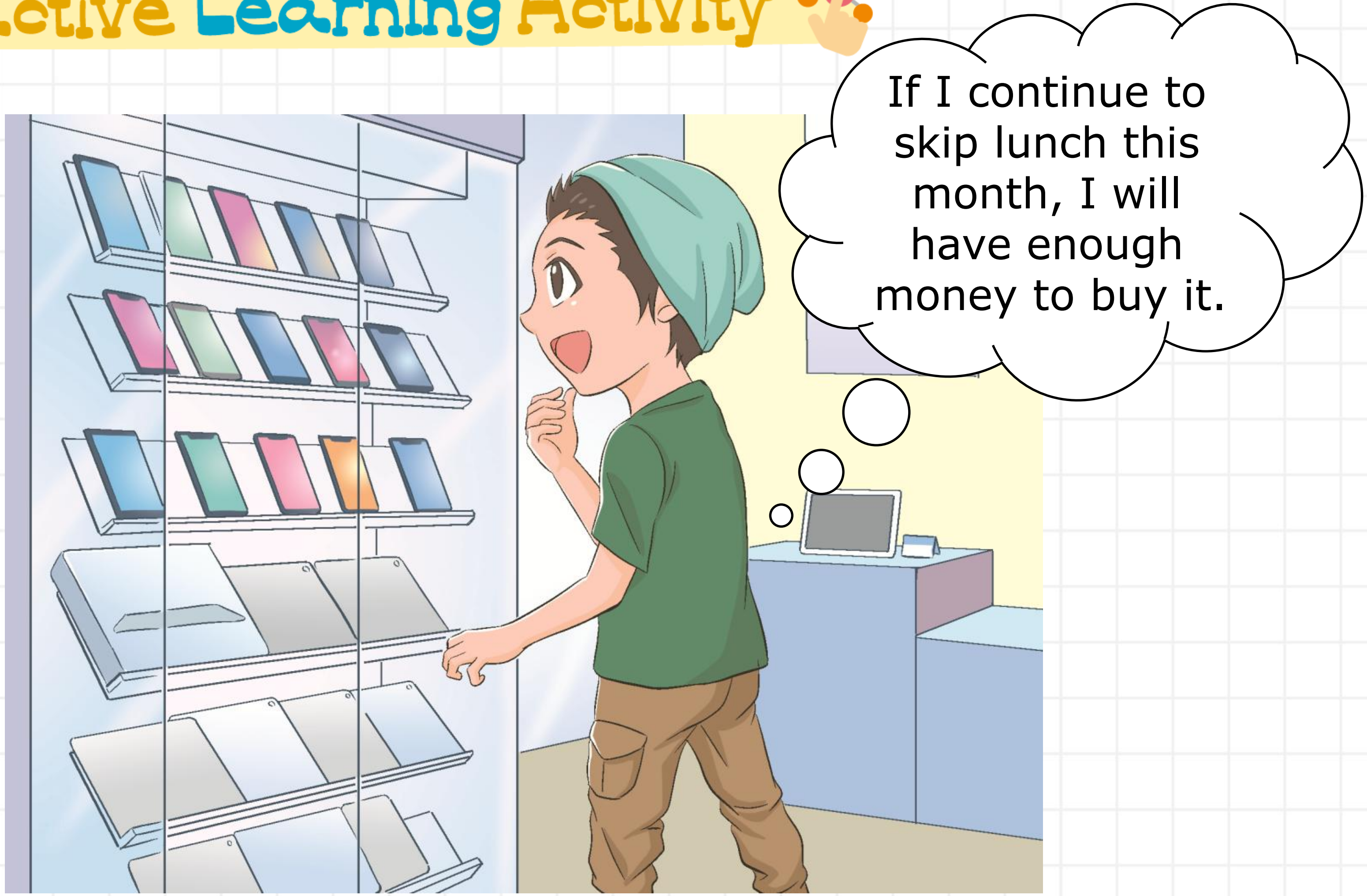
Interactive Learning Activity

Impulse consumption : Making a purchase purely on impulse.

Interactive Learning Activity

Crazy consumption : Unrestrained shopping without considering necessity or affordability.

Interactive Learning Activity



Vanity consumption : Buying unnecessary luxury goods to show off one's social status.

Interactive Learning Activity

How to avoid over-consumption?

2. If you were friends of the characters above, how would you advise them to avoid over-consumption? Discuss with your classmates.

Free answer. Suggested answer:
Impulsive consumers can try carrying only a small amount of money when going out, so that even in moments of impulsive urges, they won't have the means to shop.
Crazy consumers often use spending as a means to escape from problems and worries. It is important to help them understand that avoidance is not a solution and encourage them to face issues with a positive attitude.
Vanity consumers usually have low self-confidence and seek to enhance it through shopping. It is important to make them understand that self-confidence should not be based on material possessions and encourage them to engage in various activities and discover their unique talents to build self-confidence.

C Borrowing

1. Definition of borrowing

Borrowing refers to the **lender** temporarily giving the right to use money to the **borrower**. The borrower is allowed to use the lender's money first, while the lender can get more money (**principal** and interest) after a period of time as compensation.

Keyword

◆ Lender

It is the person who lends money to others.

Keyword

◆ Borrower

It is the person who borrows money from others.

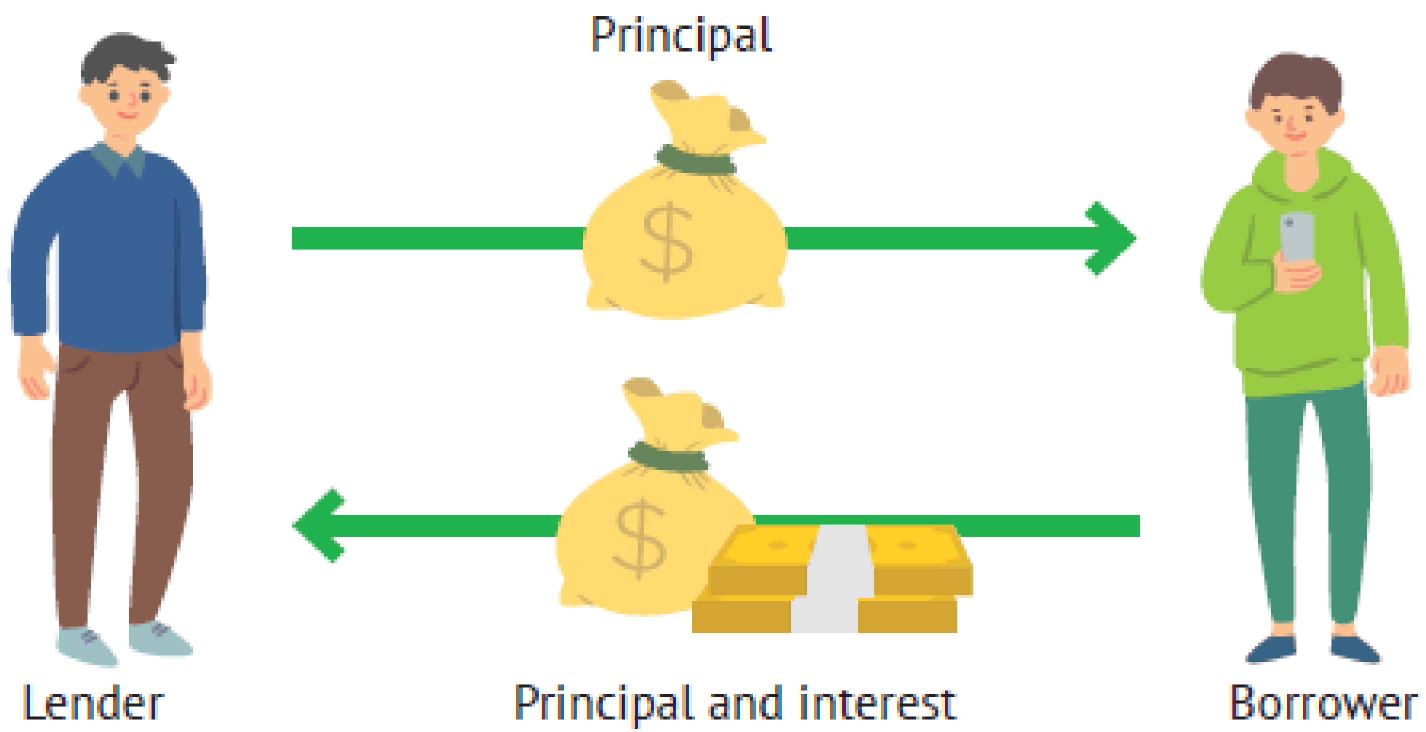
Keyword

◆ Principal

It is the original amount of money used for a loan or deposit before interest calculation.

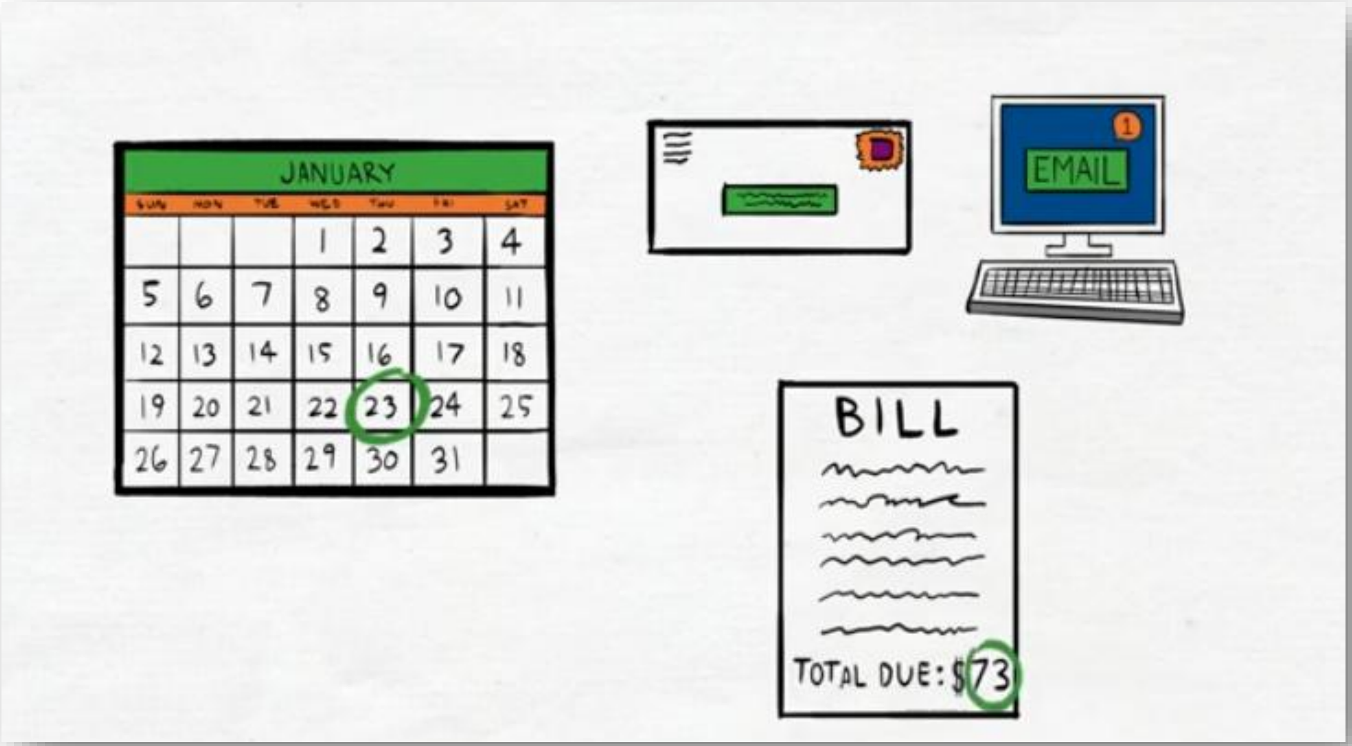
C Borrowing

1. <u>Definition of borrowing</u>



In-class Video (Loan Basics)

- https://youtu.be/paLSDA8s3H4?si=mkp6JxEnf0HKNrIP



C Borrowing

2. <u>Risks of borrowing</u>

We should evaluate our ability to pay back the loan, the necessity of borrowing, and the costs involved so as to avoid getting into too much debt.

① Paying high interest

In addition to the amount of the principal, the borrower has to pay interest to the lender as compensation.

The two most common methods of calculating interest are simple interest and compound interest. Banks, financial institutions or credit card companies calculate interest using compound interest.

Simple interest method

- Calculated based only on the principal, so the interest amount per period remains the same.
- The total interest is calculated by multiplying the principal, by the **interest rate**, and by the number of periods (the number of times that interest is calculated).
- The total repayment amount is the sum of the principal and the total interest.

Keyword

◆ Interest rate

It is the ratio of return that the lender receives on their money. This is usually calculated as a percentage of the principal amount per year.

Simple interest method

Interest per period = Principal × Rate ← Fixed amount

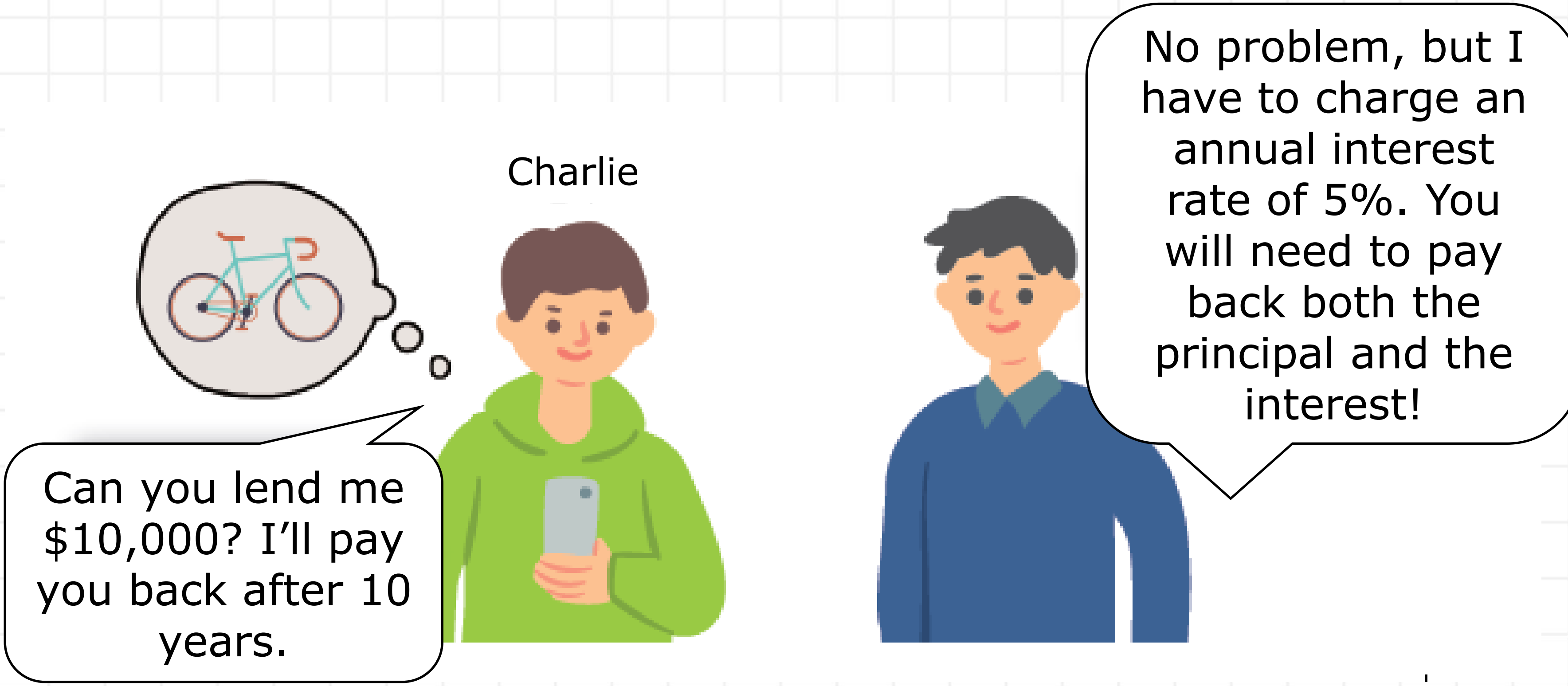
Total interest = Principal × Rate × Time

Total repayment = Principal + Total Interest

= Principal + Principal × Rate × Time

= Principal × (1 + Rate × Time)

Example


Charlie
Can you lend me $10,000? I'll pay you back after 10 years.
No problem, but I have to charge an annual interest rate of 5%. You will need to pay back both the principal and the interest!

Using the simple interest method, if Charlie borrows a principal of \$10,000 for 10 years and the annual interest rate is 5%, the total interest and repayment amount he will have to pay are:

Total Interest $=$ \$10,000 × 5% × 10

$=$ \$5,000

Total repayment $=$ \$10,000 × (1 + 5% × 10)

$=$ \$15,000

Compound interest method

- Compound Interest is calculated not only based on the principal. Any interest earned in each period will become part of the principal for the next period.
- Since both the principal and interest increase over time, the amount of interest due is not fixed, resulting in a significant compounding effect. Thus, **the interest due using compound interest will be higher than that calculated using simple interest, even with the same interest rate and number of times.**

Compound interest method

(Principal + Interest from the previous period)

Interest per period = Principal × Rate

Variable amount

Total interest = $\text{Principal} \times (1 + \text{Rate})^{\text{Time}} - \text{Principal}$

Total repayment = $\text{Principal} \times (1 + \text{Rate})^{\text{Time}}$

▲ Compound interest has a compounding effect. It means that the total repayment amount will increase over time.

Example

Using the compound interest method, the total interest and repayment amount Charlie will have to pay are:

Total interest	=	$\$10{,}000 \times (1 + 5\%)^{10} - \$10{,}000$
	=	\$6,289
Total repayment	=	$\$10{,}000\ (1 + 5\%)^{10}$
	=	\$16,289

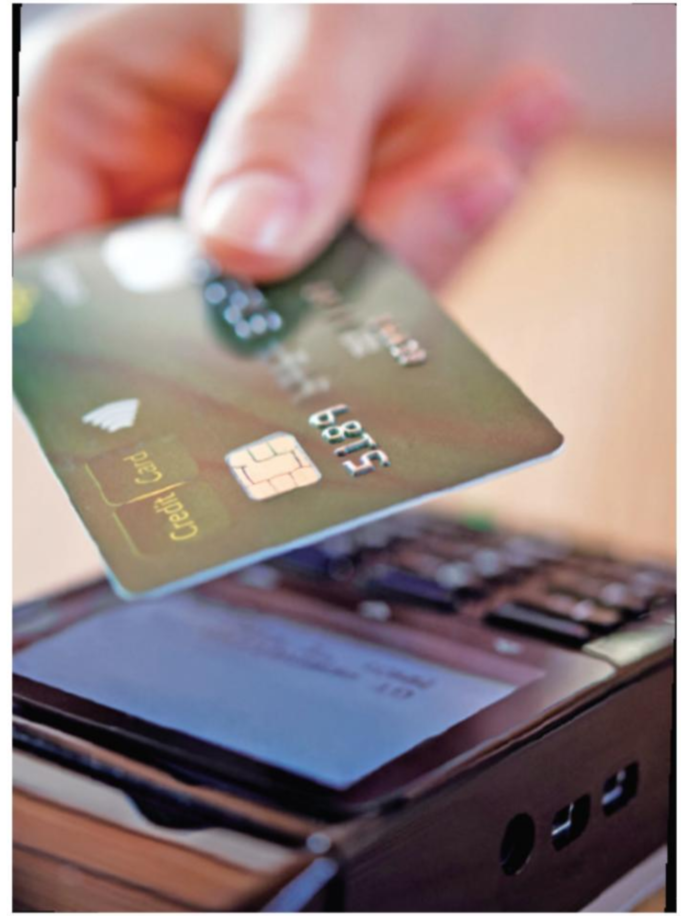
Remark: To calculate $(1 + 5\%)^{10}$, find the value of $1 + \frac{5}{100}$ first, and then raise that value to the power of 10.

Knowledge+

Credit card consumption

Credit cards are a non-cash payment method. When a credit card is used for purchases, the bank pays the merchant first and collects the debt from the cardholder later. Therefore, credit card payment is a kind of borrowing.

Knowledge+



While credit cards are a convenient ▶ payment tool, improper use of credit cards can lead to debt issues.

C Borrowing

② Bearing a lot of stress

As debts and interest accumulate, borrowers may become worried about spending too much of their income on repayment and being unable to save money. Even worse, they may have to sell personal belongings. If they borrow from friends and family to deal with large debts, their relationships and social life will also be affected, leading to long-term mental stress.

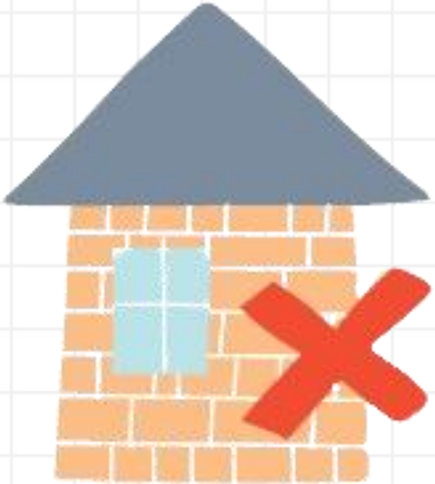
C Borrowing

③ Failing to repay debt

If borrowers fail to repay debt on time, possible consequences are:

A. Collateral being seised or sold

Collateral, such as a residential property, is sometimes required when applying for a loan. If the borrower cannot repay the loan on time, the lender may seise or sell the collateral as compensation.



C Borrowing

B. Causing trouble to the guarantor

If the borrower cannot repay the loan as scheduled, the lender has the right to claim compensation from the **guarantor**.

Keyword

◆ Guarantor

It is the assurer of loans. If the borrower cannot repay the loan on time, the guarantor is responsible for repaying it according to the contract.

C Borrowing

C. Accumulating more debt

Some borrowers choose to borrow money from another agency to repay existing debts, which does not solve the root problem; instead, the debtor may end up paying more interest and accumulating more debt.

C Borrowing

D. Going bankrupt

Borrowers who cannot repay debt even by selling all their assets have to file for bankruptcy. People who have gone bankrupt may be barred from some professions such as accountants and lawyers, and may face difficulties when applying for credit cards and mortgage in the future.

C Borrowing

3. A proper attitude towards borrowing

Young people who are still in school with limited finances may struggle with the burden of borrowing. We should know that we have to repay when we borrow, and the amount will have to be deducted from our future income. Therefore, young people should avoid borrowing.

Before deciding to borrow, we must review whether the expenditure is truly necessary. Also, cultivating the habit of saving in our daily lives enables us to achieve goals that require significant expenses, such as further studies and buying a property. Using savings can help minimise the need for borrowing and accomplish our objectives.

Quick Recap

Borrowing comes with costs and risks, such as paying high ___interest___ and bearing a lot of ___stress___. If borrowers fail to repay the debt, they may have to file for ___bankruptcy___, affecting their credit record and life plans in the future.

Think About It

What should one pay attention to before borrowing money?

Free answer. Suggested answer:

- Needs: Determine the purpose and needs for borrowing, such as further education or purchasing a property.
- Interest rates and loan amount: The calculation method of interest rates directly affects the repayment amount. Additionally, estimate the amount needed to achieve the goal in order to decide the loan amount.
- Loan type: Choose the appropriate type of loan, such as a mortgage loan or an auto loan.
- Repayment capacity: Calculate income and expenses to ensure that you have enough funds to repay the loan.
- Lending institution: It is important to choose a reputable lending institution.

D General financial services provided by banks and other financial institutions

To manage personal finances, we often use services provided by **banks** and other financial institutions, including deposits, insurance, loan services and investment.

Keyword

◆ Bank

Banks are financial institutions that act as a credit intermediary and engage in deposits, loans and other services.

Interactive Learning Activity

What services do financial institutions provide?

I have a lot of savings. I want my wealth to grow steadily.

Dad

You may consider investing in these bonds and stocks.

Interactive Learning Activity

Brother

I can’t afford buying a flat with my savings...

With your stable job and income, consider a mortgage loan.

Interactive Learning Activity

Hello! How may I help you?

Mum

I want to deposit $1,000 into my savings account. Thank you!

Interactive Learning Activity

What else do we need to prepare for our trip next month?

Mable

Travel insurance? Accidents such as theft and injury can happen while travelling abroad.

Interactive Learning Activity

1. Identify the financial services that Mabel's family members need.

   Dad: investment
   Brother: loan services
   Mum: deposits
   Mable: insurance

2. Which financial institutions in Hong Kong provide the above mentioned services?

   Banks, insurance companies, financial institutions and so on.

D General financial services provided by banks and other financial institutions

1. Deposits

Banks allow us to deposit money for savings, and withdraw it when needed. Therefore, we do not have to carry a large amount of cash.

D General financial services provided by banks and other financial institutions

Banks services are mostly digital now. ▶

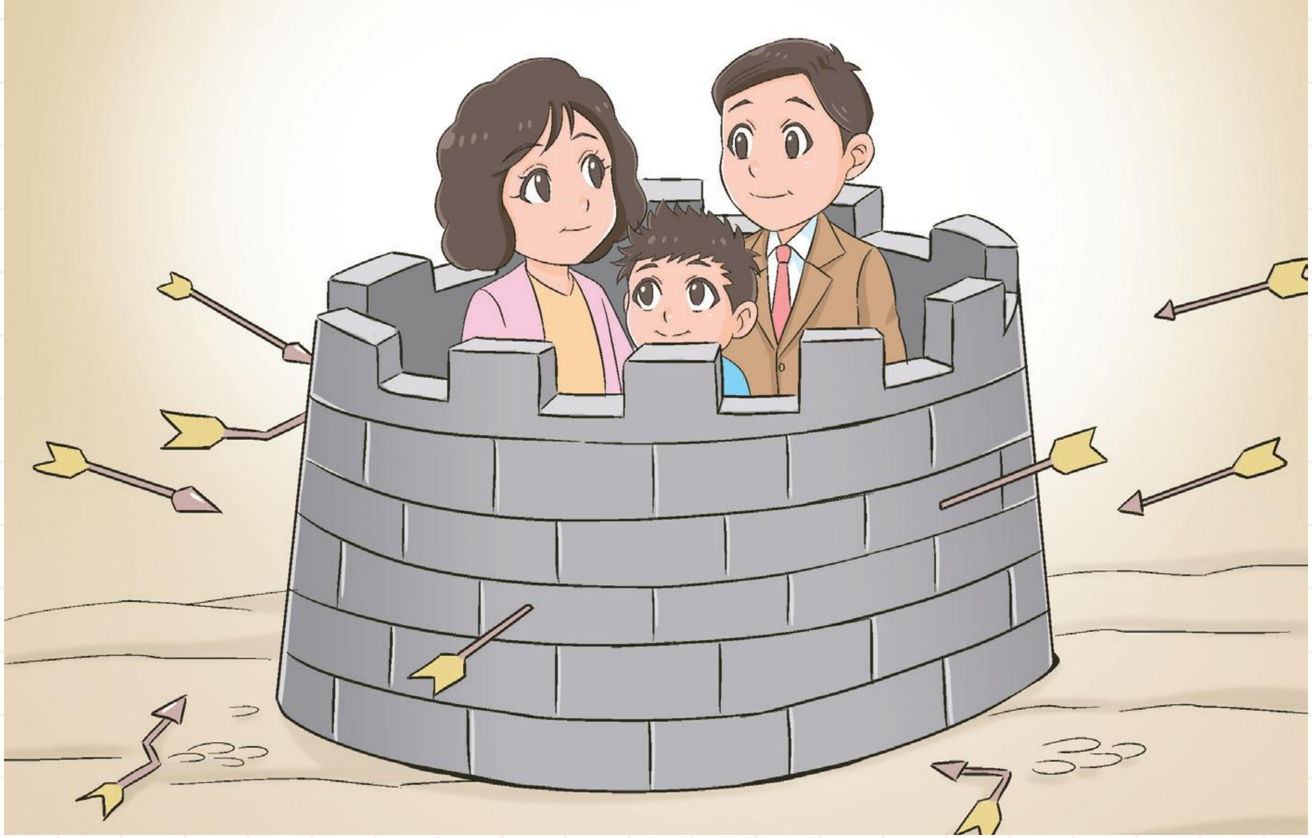
D General financial services provided by banks and other financial institutions

2. Insurance

Insurance is a means of risk management. Those who buy insurance pay insurance premiums to the insurance company. In return, the insurance company will provide compensation to the beneficiaries according to the terms and conditions when an unfortunate event occurs.

D

General financial services provided by banks and other financial institutions



▲ In times of illness or unexpected events, insurance offers financial security and helps us cope with financial challenges.

D General financial services provided by banks and other financial institutions

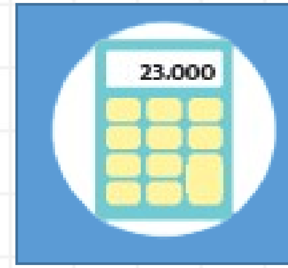
There is a wide variety of insurance services available now, such as travel insurance, life insurance, and medical insurance, etc. However, the coverage of various plans is different. **It is necessary to review terms and conditions and understand one's own needs before buying.**

D General financial services provided by banks and other financial institutions

2. Loan services

There are various loan services on the market. For example:

D General financial services provided by banks and other financial institutions



Credit card loans

Credit card holders can get a loan against their credit limit.

Hire purchase

Hire purchase refers to repaying a debt for a single transaction in several payments over time.

Mortgage

Mortgage is about financing for a property. People apply for a mortgage from banks to get enough funds to buy a property.

Keyword

◆ Credit limit

It is the maximum amount of money that a credit card holder can spend. When approving a credit card application, the card issuer will grant a credit limit based on income and credit record of the applicant.

D General financial services provided by banks and other financial institutions

4. Investment

People can choose financial products that match their expectations for returns and risks.

D General financial services provided by banks and other financial institutions

Savings and Fixed deposits

Expected return	Risk
Low but relatively stable interest income	Least risky when compared to more risky assets such as foreign currency deposits, bonds and stocks

Currency deposits

Expected return	Risk
Earn interest income Potential return if the foreign currency appreciates in value against HKD	Exchange rate can go up and down and lead to losses

D General financial services provided by banks and other financial institutions

Bonds

Expected return	Risk
😄 Stable interest income	😢 May not recover the full value of principal and interest 😢 Less risky than stocks despite price changes

Stocks

Expected return	Risk
😄 Potential increase in shareholders' asset value when the stock price rises	😢 Most risky as stock prices can go up and down greatly within a short period of time

Keyword

◆ Bond

Bonds are certificates issued by governments, financial institutions, and corporations to raise funds from investors. They promise to pay interest at a fixed rate and to repay the principal to bondholders at maturity.

Keyword

◆ Stock

Stock refers to certificates issued by companies when they raise capital from investors. It is used to prove their ownership of the capital and the company.

D General financial services provided by banks and other financial institutions

Returns and risks are relative in investment, which means high-risk investments offer higher potential returns and loss, while low-risk investments provide more stable but lower returns. Keep in mind that investing is not gambling, which is not just a matter of luck. Before making rational investment decisions, we should have a good understanding of the financial products we are purchasing, carefully balancing risk and return.

D General financial services provided by banks and other financial institutions

Additionally, we must beware of investment schemes that claim low risk and high returns to avoid falling into investment traps. Seeking returns through legal and proper way is essential, and we should refuse to participate in any investment fraud.

Quick Recap

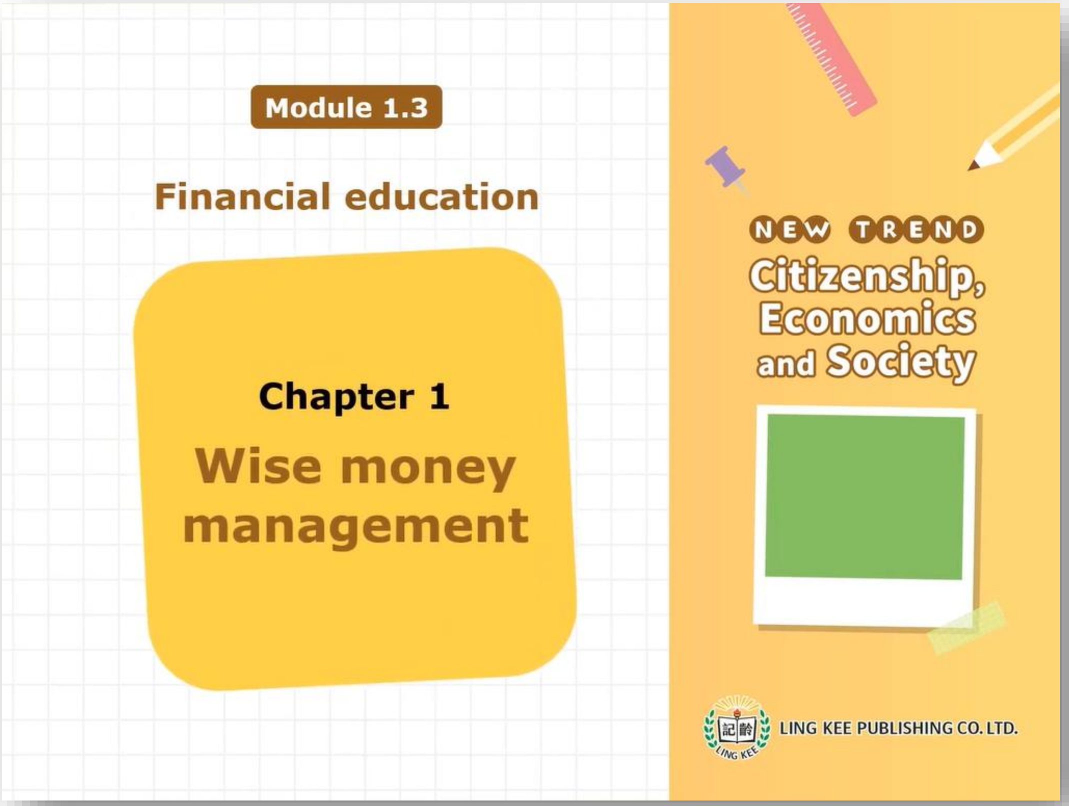
In Hong Kong, the financial services provided by banks and other financial institutions include: ___deposit___, ___insurance___, ___loan services___, and ___investment___. When using money for ___investment___, we should understand that ___returns___ and ___risks___ are relative.

In-class Video
(Banking Explained – Money and Credit)

- https://youtu.be/fTTGALaRZoc?si=rpHHCHLfuqNoHwh4

After-class Video

- https://www.youtube.com/watch?v=8GMMAzJ7VWE

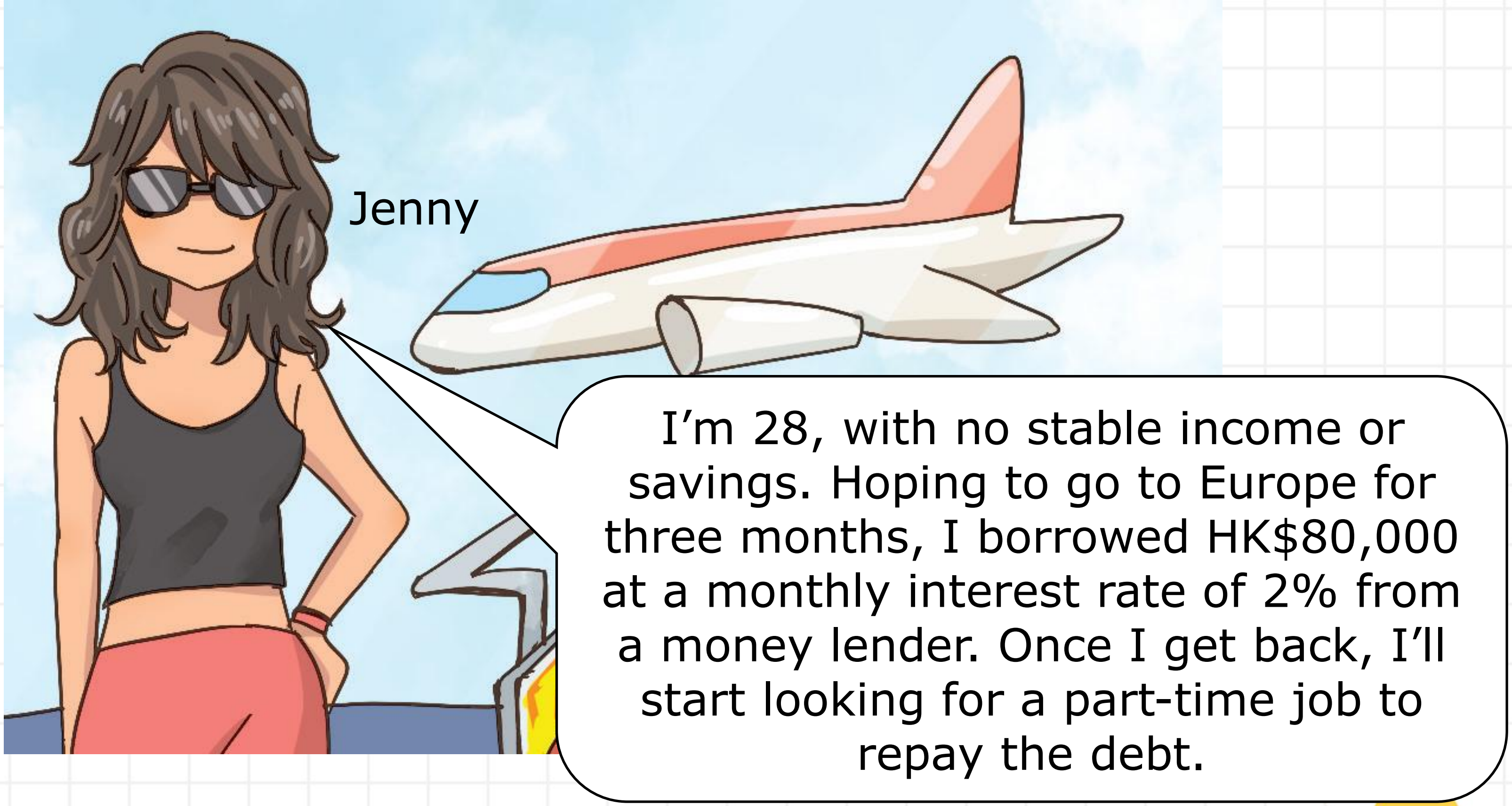


Exercise

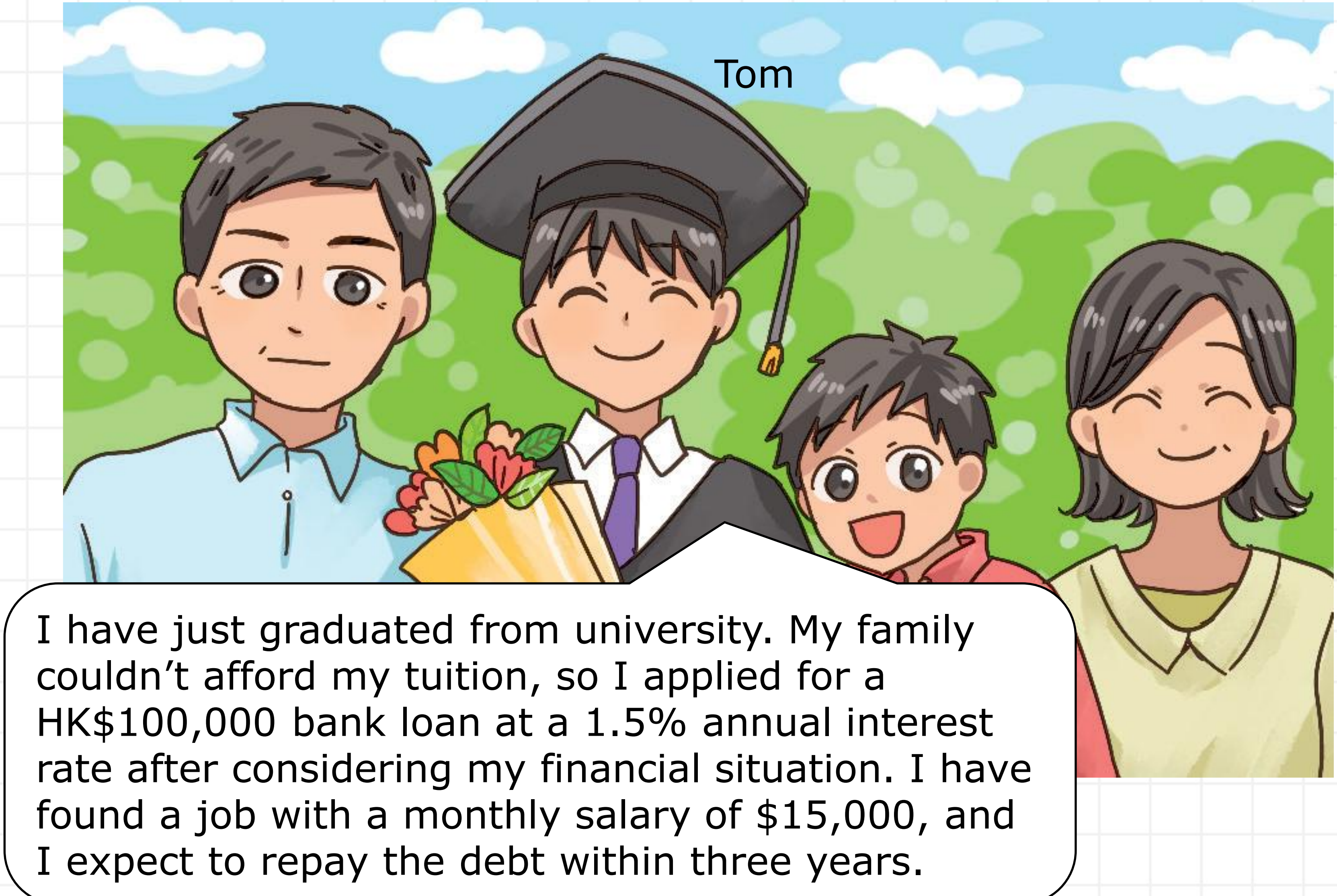
Attitude/ Value
Self-discipline, rationality, prudence, responsibility, simplicity

The right attitude towards borrowing

Study the source below carefully and answer the following questions.



Exercise


Tom
I have just graduated from university. My family couldn’t afford my tuition, so I applied for a HK$100,000 bank loan at a 1.5% annual interest rate after considering my financial situation. I have found a job with a monthly salary of $15,000, and I expect to repay the debt within three years.

Exercise

The right attitude towards borrowing

1. According to the source, what are the borrowing purposes and methods of Jenny and Tom?

Understand source

	Borrowing purpose	Borrowing method
Jenny	Travel to Europe	Borrowed money from money lender which did not require people to provide income proof
Tom	Tuition fee	Applied loan from a bank

Exercise

The right attitude towards borrowing

2. According to the source, who is a more responsible borrower? Why? Fill in the blanks below.

Analyse cause

___Tom___ is a more responsible borrower. He / She borrowed money to ___study___. Moreover, he / she ___considered___ personal financial situation before borrowing to ensure the ability to ___pay___ the debt in the future.

Exercise

The right attitude towards borrowing

3. In your opinion, what is the right attitude towards borrowing? Illustrate your answer. Express opinions

Hint: 1. What are the risks of borrowing?
2. Do we have the ability to take the risks?

____

____

____

Exercise

The right attitude towards borrowing

3. In your opinion, what is the right attitude towards borrowing? Illustrate your answer. **Express opinions**

Hint: 1. What are the risks of borrowing?
2. Do we have the ability to take the risks?

Free answer. Suggested answer:
We can borrow money after we have a rational analysis and make sure we have enough repayment ability. For example, Tom borrowed money as he would like to pay the tuition fee, which the money is worth paying. However, it was not necessary for Jenny to borrow money simply for travelling, indeed, she should have saved more money before the trip. In short, we should consider clearly that whether borrowing is necessary and reasonable for us in order to avoid future financial burdens.