

Dhanbad Institute of Technology

Dhanbad, 826001

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SCHEME OF INSTRUCTION AND SYLLABUS

For Diploma Program

Mastering Personal Finance (Basic to Advance Strategies)

(Effective from 2024-25) AUDIT COURSE

Detailed Draft Notes Diploma

(IV – SEMESTER)



DHANBAD INSTITUTE OF TECHNOLOGY

Approved By AICTE, Delhi, Affiliated to JUT, Ranchi
Shakti Nagar, Co-operative Colony, Dhanbad, Jharkhand - 826004

Unit No : 01

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Abhishek Rai

Understanding Financial Literacy

Financial literacy is the possession of knowledge, skills, and confidence to make informed financial decisions—covering budgeting, investing, debt management, and risk—to achieve long-term financial security. It is essential for personal well-being, reducing financial stress, and fostering economic independence, as well as enabling informed decisions regarding investments and spending

Introduction to Financial Literacy :-

Definition & Scope: Defined by the OECD/PISA as understanding financial concepts and risks to improve financial well-being. It includes budgeting, managing credit/debt, understanding banking products, investment strategies, and retirement planning.

Significance: It acts as a critical life skill in a complex digital economy, providing the ability to navigate high-interest debt, "buy now, pay later"

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services, and investment apps. It is crucial for both personal daily decision-making and professional financial management.

Impact on Personal Well-being :-

Financial Health: Literacy directly reduces financial stress, leads to better debt management (e.g., higher credit scores, lower interest payments), and ensures adequate retirement planning.

Examples: Financially literate individuals avoid high-interest debt traps and are better prepared to handle economic emergencies. For instance, understanding compound interest encourages earlier savings, increasing long-term wealth.

Cases: Studies show that individuals with higher literacy are less likely to rely on payday loans and more likely to invest, leading to higher overall personal wealth

Economic Empowerment :-

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Independence: Financial literacy fosters economic independence by empowering individuals to manage money rather than being managed by it.

Decision-Making: It improves the quality of financial decisions regarding savings rate, investment choices (stocks, bonds, real estate), and managing financial risks through insurance.

Empowerment: It allows people to understand how to build a "financial toolkit," creating stability rather than just living paycheck to paycheck.

Global Perspective :-

International Approaches: Financial literacy is a global concern, with organizations like the OECD measuring it internationally. Some nations focus on school-based education, while others prioritize workplace initiatives.

Cultural Differences: Developed Economies: Often focus on complex investing, retirement, and digital security. Developing Regions: Emphasis is often placed on basic financial inclusion, banking access, and avoiding predatory lending.

Effects: Cultural attitudes toward debt and savings strongly influence the effectiveness of literacy programs, with some cultures prioritizing family-based financial planning over individualistic strategies

Basic Financial Terms :-

Understanding basic financial terms is the first step toward financial literacy and long-term security. These terms help you manage daily expenses, prepare for emergencies, and grow your wealth.

- 1. Savings :-** Savings are the portion of your income that you set aside for immediate or short-term goals rather than spending it on everyday items. It emphasizes security and liquidity, meaning the money is safe and easily accessible. Example: Putting 10% of your monthly salary into a savings account for an emergency fund (like unexpected medical bills or car repairs).
- 2. Investments:-** Investment involves allocating your savings into financial assets with the expectation of earning a higher return over time.
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expectation of earning a higher return over time. Unlike savings, investments carry risk but aim to grow your wealth over the long term. Example: Buying stocks, mutual funds, or real estate with the goal of increasing your net worth over the next 5–10 years

- 3. Credit :-** Credit is a contractual agreement where you receive something of value now (money, goods, or services) and agree to pay the lender back later, usually with interest. Example: Using a credit card to buy a laptop today and paying the bank back in monthly installments
- 4. Debt :-** Debt is the amount of money you owe to another party (such as a bank) due to borrowing. It is the result of using credit. Example: A home loan (mortgage), personal loan, or outstanding balance on a credit card.
- 5. Interest Rates :-** An interest rate is the cost of borrowing money or the reward for saving it, expressed as a percentage of the principal amount. Example (Paying): Borrowing ₹10,000 at a 10% interest rate means you pay back ₹11,000 after one year. Example (Earning): Keeping ₹10,000 in a fixed deposit with a 6% interest rate means you receive ₹10,600 after one year.

Understanding Financial Products and Services:

What Is the Financial Services Sector?



Banks



Investment
houses



Lenders



Finance
companies



Real estate
brokers



Insurance
companies

 Investopedia

Understanding financial products, managing personal financial statements (budgets, net worth), and navigating risks are essential for financial stability. Key products like savings accounts, insurance, and investments facilitate security and growth. Analysing net worth and cash flow helps control income,

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debt, and spending. Effective risk management involves understanding the risk-return trade-off and using insurance or diversification

- 1. Bank Accounts (Checking/Savings):** Used for daily transactions, liquidity, and accumulating emergency funds
- 2. Credit Cards/Loans:** Provide access to credit for immediate purchases or larger investments, such as homes or education.
- 3. Insurance:** Protects against financial loss, such as health, life, and property insurance.
- 4. Investments (Stocks/Bonds/Mutual Funds):** Financial instruments designed to grow capital over the long term, offering higher returns compared to savings accounts, but with higher risk.
- 5. Purpose:** These tools facilitate saving, borrowing, investing, and protecting assets to achieve financial goals like retirement, homeownership, or education.

Financial Statements and Reports

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Personal financial statements provide a snapshot of an individual's financial health and are essential for planning. Personal financial statements provide a snapshot of an individual's financial health and are essential for planning.

1. **Budget:** A detailed breakdown of income and expenses over a specific period, used to track spending habits and manage cash flow.
2. **Net Worth Statement:** A snapshot calculated as Assets – Liabilities. Assets are what you own (cash, property), and liabilities are what you owe (debt).
3. **Cash Flow Statement:** Records the flow of cash in (income) and out (expenses) of your account over a period.
4. **Interpretation:** A positive net worth indicates financial strength, while a budget helps identify opportunities to save or reduce debt.

Navigating Financial Risks

Financial risk is the probability of losing money or experiencing financial distress.

Types of Risk: Includes credit risk, market risk (investments), inflation risk, and liquidity risk.

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Risk Management Strategies:

1. **Diversification:** Spreading investments across different assets to minimize the impact of a single asset's decline.
2. **Insurance:** Transferring the risk of catastrophic loss to a third party.
3. **Emergency Fund:** Maintaining cash reserves to cover unexpected expenses, such as health issues or job loss.
4. **Risk Tolerance Assessment:** Understanding your ability and willingness to handle potential investment losses

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Mastering Personal Finance Notes For Civil Engineering By Er. Abhishek Rai

*Abhishek
Rai*

