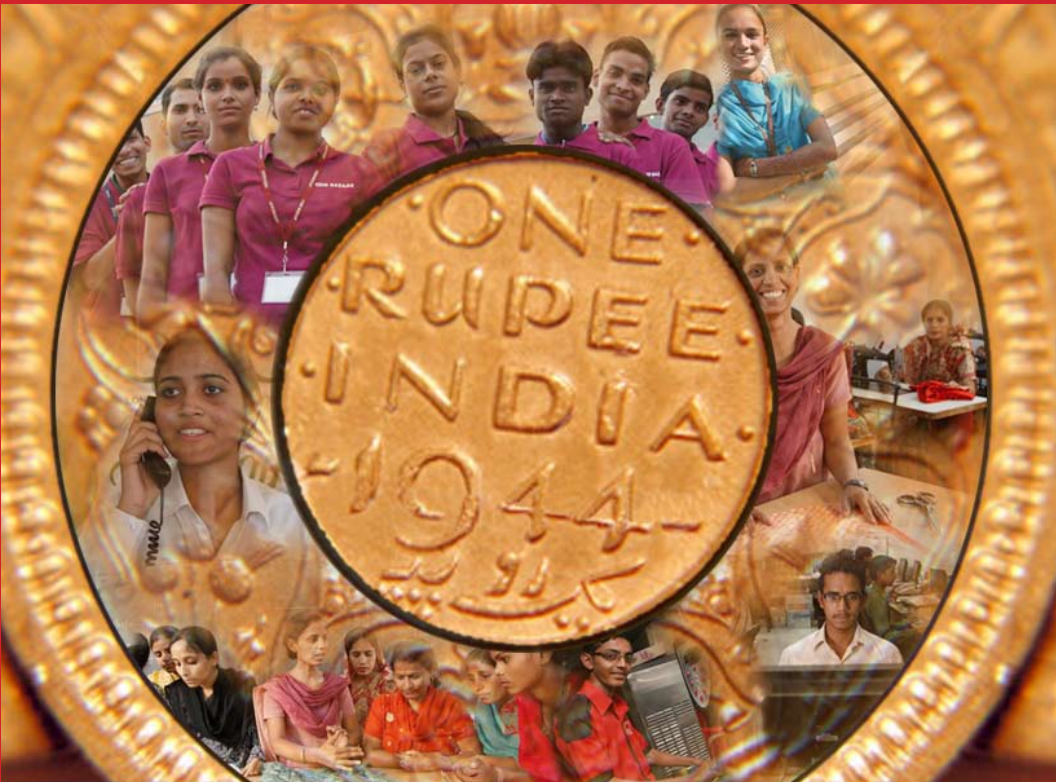


# 1

## MODULE

# Employment & Earnings

# रोज़गार और कमाई



Supported by

Citi Foundation



# 1

MODULE

## Employment & Earnings

रोज़गार और कमाई

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# Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with *essential* knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.

# Course Structure

## Modules:

- **Pre-Assessment**
- **Module 1:** Employment & Earnings
- **Module 2:** Spending
- **Module 3:** Savings
- **Module 4:** Borrowing
- **Module 5:** Financial Planning
- **Post-Assessment**

## Overarching Objectives:

- Explain the components of salary income so that students can read their salary slips
- Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
- Equip students to prioritize, budget, and plan for total expenses
- Highlight the financial and emotional costs of borrowing
- Explain the concept of return and link to borrowing for consumption vs. production
- Introduce the formal banking sector and its role in financial management & planning

## Outcomes:

*By the end of the curriculum, students should have:*

- Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
- Identified a short and long-term goal to provide ongoing motivation for savings
- Opened a savings account (or at least attempted to open one)

# 1

## MODULE

# Employment & Earnings

## रोज़गार और कमाई

### Module Structure:

| Topic |                                  | Activities                                       | Suggested Timing |
|-------|----------------------------------|--|------------------|
| 1.1   | Types of Employment              | Types of Employment<br>I Want to Earn More Money | 30 mins          |
| 1.2   | Types of Pay                     | Types of Pay                                     | 30 mins          |
| 1.3   | Components of Pay & Minimum Wage |  | 45 mins          |
| 1.4   | Salary Slips                     | Reading a Salary Slip                            | 45 mins          |
| 1.5   | Earnings-Spending Equation       | Apka Aaj Apka Kal Banata Hain                    | 45 mins          |

### Module Objectives:

*By the end of the module, students should:*

- Understand the different types of employment and pay received
- Know about the national minimum wage & applicable state minimum wages
- Know how to read a salary slip and understand gross and net pay
- Understand the impact of the earning-spending equation on long-term financial health

### Homework:

- At the end of the 1<sup>st</sup> or 2<sup>nd</sup> class, ask students to complete this homework exercise:

*Using the worksheet on page 4 of your student booklet, record all the things that you spend money on over the next week. Note down the item and cost.*

## 1.1 Types of Employment

*In India, there are many jobs in both the formal & informal sectors, but the employment conditions in each sector are different.*

**Formal (Organized) Sector:** Consists of companies that pay taxes and are monitored by the government. These employers pay workers at least the government-required minimum wage. They also provide terms of employment or employment agreements and give salary slips.

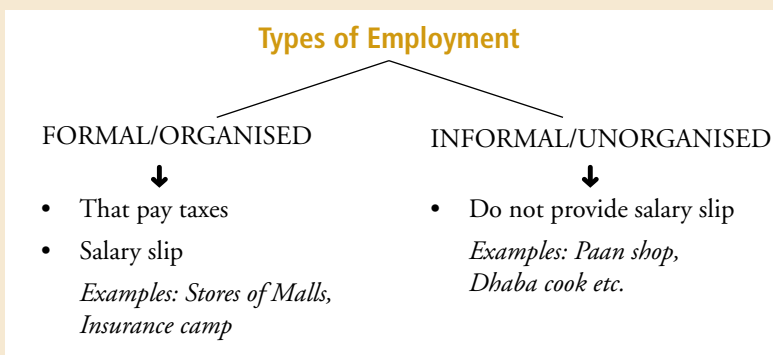


*Examples: stores in malls, BPO's/call centers, insurance companies*





**Informal (Unorganized) Sector:** Consists of mostly small, unregistered, entrepreneurial ventures which do not keep official records of earnings, salaries etc. These employers may pay less than the government-required minimum wage. They do not provide terms of employment, employment agreements, or salary slips.



*Examples: Paan shop, mehendi wala, dhaba cook*



*Within both the formal & informal sector, there are different classifications of employment.*

| Type of Employment        | Definition  | Formal Sector Examples  | Informal Sector Examples  |
|---------------------------|---|---|---|
| <b>Self-employed</b>      | Self-employed people work for themselves. They may provide everyday goods & services in the informal or formal sector, or professional services in the formal sector. Their income varies from day to day and month to month.   | <ul style="list-style-type: none"> <li>• Owner of chemist shop</li> <li>• Graphic designer</li> </ul>   | <ul style="list-style-type: none"> <li>• Sabzi wala</li> <li>• Dhobi</li> <li>• Shoe shiner</li> <li>• Landowning farmer</li> </ul>  |
| <b>Contract employee</b>  | <p>A contract employee in the formal sector is placed by an agency to work for a company for a fixed-term period and fixed salary. The employer &amp; agency may not pay for Provident Fund or Employer State Insurance. The length of the contract is usually determined in advance, but may be renewed or extended.</p> <p>A contract employee in the informal sector finishes a specific job (e.g., painting a house).</p> | <ul style="list-style-type: none"> <li>• IT employee</li> <li>• Teacher</li> <li>• Data entry employee</li> </ul>  | <ul style="list-style-type: none"> <li>• Laborer</li> <li>• Migrant worker</li> </ul>    |
| <b>Permanent employee</b> | A permanent employee works for an employer on a regular basis in the formal or informal sector. In the formal sector, he/she may be part-time (less than 20 hours/week), or full time (40 hours/week).  | <ul style="list-style-type: none"> <li>• Salesperson in a mall</li> <li>• Call center employee</li> <li>• Secretary</li> </ul>  | <ul style="list-style-type: none"> <li>• Cook in a dhaba</li> </ul>    |

**Trainer Note:** Trainers should be aware that a specific job can fall into different classifications.

*E.g., a teacher can be a contract or a permanent employee*

*E.g., a graphic designer can be self-employed or can be a contract or a permanent employee*



## Contract Employees

In the formal sector, companies are increasingly hiring contract employees. This is done through a third-party known as the employment agency or staffing companies. Employees use the agency to help find a job. Employers use the agency to find appropriate employees for their positions.

A contract employee is asked to work for a specific company for a fixed-length term or contract period and a fixed salary or hourly rate. During the contract period, the employee does not receive an increment or salary increase. The employer may not contribute to a contract employee's Provident Fund (PF) or Employee State Insurance (ESI).

If the employee works hard and does well, the contract may be renewed or extended. Or the employee may be offered a permanent position, with PF & ESI contributions by the employer and maybe a higher salary or hourly rate.

Therefore, it can be a good idea to stay in one contract job for a long time, rather than moving around from one contract job to another.

Hired as contract employee through an agency

Contract term renewed or extended

Offered permanent position with employer

## Training & Probation

When you first start a job, you may have to complete a **training period**. During training, you learn about the company and learn additional skills and knowledge specific to your job. This training period is usually not paid but you must complete it to start working and earning your salary.

When you first join a job as a permanent or contract employee, you may have a **probation period**. During this period, the employer is carefully observing your behavior and performance at your job. If you behave or perform poorly during probation, you can lose your job. You can get a “permanent employee” status once you complete your probation and your employer likes your work.

## Exercise – Types of Employment

Write down the name(s) of people you know who are employed in each of these ways:

Self-employed in formal sector: \_\_\_\_\_

Self-employed in informal sector: \_\_\_\_\_

Contract employee in formal sector: \_\_\_\_\_

Contract employee in informal sector: \_\_\_\_\_

Permanent employee in formal sector: \_\_\_\_\_

## I Want to Earn More Money

Rohan and Mohan are friends from their MAST training course. They both received placements at Big Bazaar as contract employees with a salary of Rs. 5,000 per month.

However, Mohan left the job after three months because he did not like having to work at night when new products arrived. It took him one month to find a new job as the jobs he interviewed for always asked why he left Big Bazaar so soon. Finally, he got another contract position at Reliance Fresh for the same salary of Rs. 5,000 per month.

A few months later, Rohan learned that Mohan had again left his job and had been looking for a new job in the last month. He told his friend not to change jobs so often as he would lose salary while looking for a job. Rohan told him that he had been offered a permanent position with Big Bazaar at a salary of Rs. 6,000 per month as he had stayed with the company for 9 months and been a good employee.

Because Rohan was more patient than Mohan and worked hard at his job, he earned a lot more money – an extra Rs. 13,000 in one year!

|              | Rohan         | Mohan                  |
|--------------|---------------|------------------------|
| Month 1      | 5,000         | 5,000                  |
| Month 2      | 5,000         | 5,000                  |
| Month 3      | 5,000         | 5,000                  |
| Month 4      | 5,000         | <i>Looking for job</i> |
| Month 5      | 5,000         | 5,000                  |
| Month 6      | 5,000         | 5,000                  |
| Month 7      | 5,000         | 5,000                  |
| Month 8      | 5,000         | 5,000                  |
| Month 9      | 5,000         | 5,000                  |
| Month 10     | 6,000         | <i>Looking for job</i> |
| Month 11     | 6,000         | 5,000                  |
| Month 12     | 6,000         | 5,000                  |
| <b>Total</b> | <b>63,000</b> | <b>50,000</b>          |

## 1.2 Types of Pay

*How our pay is earned depends on the terms of our employment.*

- **Hourly:** Fixed rate per hour. The total amount earned depends on the number of hours worked.
- **Salaried:** Fixed monthly or annual rate. The total amount earned will be adjusted if the employee works for only part of a month or takes unpaid leave.
- **Job-Based:** Pay based on the number and type of jobs performed. The total amount earned varies from day to day.
- **Commission-Based:** A commission-based employee earns a fixed percentage of his/her product sale value. Typically he/she also earns some salary. **Commission is a form of payment for services rendered.**
- Shyam earns Rs. 3000 as his monthly fixed salary. Over and above he gets Rs. 40 for each insurance he sells after he has achieved a target of selling 50 insurance policies.

His quarterly target to sell minimum 100 insurance policies. He exceeded his target and sold 150 policies. So he earns additional Rs 10 for those 50 policies.

- His total Salary will be:  
 $3000 + 40 \times 150 + 50 \times 10$

*Salary is usually paid every 15 or 30 days. It can be paid to the employee in different ways, depending on the sector.*

### Examples

- *McDonald's or Subway employee*
- *Salesperson in mall*
- *Call center employee*
- *Salon worker*
- *Car salesperson*
- *Insurance agent*

Fixed salary +  
Commission + Incentive  
“Incentive a reward for  
increased productivity”

- **Informal (Unorganized) Sector:** employees (both permanent & contract) are paid in **cash** and do not receive a salary slip or receipt
- **Formal (Organized) Sector:** employees receive a salary slip with the details of their pay. They may be paid by:
  - **Cheque** made in the employee's name. The employee must take the cheque to the bank to exchange for cash or deposit it in his/her account.
  - **Bank Deposit**, whereby the employer deposits the salary directly into the employee's bank account (employer may help with opening an account if needed).
  - **Bearer's cheque**, which is payable to the person who presents the cheque. A bearer's cheque does not indicate the payee's name, and therefore, must be kept safely until s/he can take it to the bank to deposit or exchange for cash.

### Exercise – Types of Pay

What type of pay would each of these people receive?  
Select from these options:

*Hourly, salary, job-based, commission*

- Salesperson in mall \_\_\_\_\_
- Jewellery store employee \_\_\_\_\_
- Call center employee \_\_\_\_\_
- Nirula's employee \_\_\_\_\_
- Salon worker \_\_\_\_\_



## 1.3 Components of Pay & Minimum Wage

*We must understand the different components of salary in the formal sector, as this impacts how much money we ultimately receive.*

- **Gross pay:** Gross pay is the total amount of compensation we have earned. Gross pay itself consists of different components:
  - **Basic pay:** Fixed hourly or monthly rate for our work. If paid hourly, the total amount will depend on the total hours worked in that period.
  - **Conveyances:** Cost of providing transportation services to & from place of employment.
  - **Allowances:** Supplemental amount to cover costs such as housing, work-related travel & expenses, food etc.
    - Allowances offered will vary by employer and position.
  - **Overtime:** Additional pay if the employee works above and beyond the regular hours. Overtime may be paid at a higher rate than basic pay.
    - A salaried employee will receive overtime pay if s/he works more than the hours in the terms of employment.
    - An hourly employee will receive overtime pay for any hours s/he works beyond the normal hours required per day or week.
  - **Commission:** Certain sales jobs may involve commission-based pay. The amount of commission paid will vary based on the employee's results against sales goals.
  - **Incentive (bonus or wage supplement):** Additional, one-time income that may be given at the employer's will. This amount is not guaranteed and can vary from year to year, person to person, and company to company. Bonuses are typically given (1) based on employee performance; or (2) for a major festival (e.g., Diwali).
  - **Increment:** When we have been in a job for a long time and our responsibility increases then the employer looks at giving an increment to the employee.

**Trainer Note:** The above information applies to jobs in the formal sector only.

Basic pay applies to all jobs. The other components of gross pay listed above may or may not apply, depending on the job and employer.

### Minimum Wage

The Government of India has established a minimum wage policy. All employers are required to pay their workers at least this amount. The minimum wage applies to the total of all compensation given to the employee, including:

- Basic pay
- Conveyances & allowances
- Contributions to Provident Fund or other social insurance scheme.

As of April 2011, the **minimum wage throughout India is set at Rs. 115 per day.**

Some states have their own minimum wages, which must be at least as high as the India-wide rate. These minimum wages may vary based on sector of employment. The minimum wage rate ranges for some states are listed below.

*Note:* The minimum wage rates are updated often. The table below reflects the latest information as of July 2011 and is provided only as a guide.

| Minimum Wage Rate Per Day |         |         |             |           |
|---------------------------|---------|---------|-------------|-----------|
| Worker Type               | Delhi   | Gujarat | Haryana     | Rajasthan |
| Semi Skilled              | Rs. 259 | Rs. 175 | Rs. 178-183 | Rs. 145   |
| Skilled                   | Rs. 285 | Rs. 176 | Rs. 188-193 | Rs. 155   |

*Note:* Gujarat & Rajasthan data reflects minimum wage rates for hotel, restaurants & eating houses sector. These rates are similar to those for the shops & establishments sector

**Trainer Note:** The minimum wage rates are updated often. The table above reflects the latest information as of July 2011 and is provided only as a guide. Trainers should confirm that the rates listed above have not been updated.

## 1.4 Salary Slips

*For permanent positions in the formal sector, we must be familiar with the different components of a salary slip to understand the difference between our gross and net pay.*

**Gross pay:** Total amount of compensation earned by an employee, including base pay and, if relevant, conveyances, allowances, commission, and incentives.

**Deductions:** Amounts deducted from gross pay for various reasons, including:

- **Income taxes:** Money paid to the government as required by law.
- **Employee State Insurance (ESI):** Money deducted to provide insurance for the worker and his/her dependants. Currently, employees contribute 1.75% of their salary (deducted from gross pay). Employers also contribute to each employee's ESI, but this amount is not deducted from the employee's pay. \*
- **Employees' Provident Fund (EPF or PF):** Money paid into the government-run EPF.
- **Costs incurred by the employer** (e.g., uniform costs).

**Net pay (cash-in-hand):** Gross pay minus all deductions. Net pay is the amount of pay finally received by an employee.



## Employees' Provident Fund (EPF)

**Purpose:** The EPF helps employees save for their living expenses in retirement.

**Eligibility:** Employees earning less than Rs 6,500 per month are required to join the EPF. Employees earning more than this amount can also join the EPF. Full-time, part-time, and contract employees are all eligible to join the EPF.

**Contributions:** Employees must contribute at least 12% of their basic salary\* to their EPF. This contribution is deducted from their salary and deposited into their EPF by the employer. The employer also contributes 12% on the basic salary for salaries up to Rs. 6,500 – this goes to both the EPF fund and pension fund and is not deducted from the employee's pay.

**Interest:** The monthly balance of an employee's EPF account earns interest at a fixed rate. In 2008-2009, the interest rate was 8.5%. The employee can take out his/her accumulated contributions and interest after age 58, provided s/he has given at least 10 years of service.

**Change of Job:** If an employee changes jobs, s/he can transfer his EPF to the new organization.

**Note:** Employees should make sure their EPF funds are deposited correctly by checking the contribution card kept by the employer. The EPF does not use agents or middlemen.

\*\*\*Basic salary does not include bonus/commission/overtime or cash value of food concessions

# Salary Slip Example 1

## Customer Relations and Sales Salary Slip

1 Pays lip For MAY 2011

|               |              |              |                 |
|---------------|--------------|--------------|-----------------|
| Employee Code | 18673        | Name         | Asha Rani       |
| Bank          | HDFC         | Bank A/c No. | ██████████      |
| DOJ           | 15 Nov 2010  | PF No.       | ██████████      |
| PAN No.       |              | Worked Days  | 31              |
| Department    | CASH & CARRY | Designation  | Floor Associate |

| Earnings             | Amount in Rs. | Deductions          | Amount in Rs. |
|----------------------|---------------|---------------------|---------------|
| BASIC                | 2 2,750.00    | PROIDENT FUND       | 6 330.00      |
| HOUSE RENT ALLOWANCE | 3 1,868.00    | LABOUR WELFARE FUND | 7 1.00        |
|                      |               | ESI                 | 8 81.00       |
| GROSS EARNING        | 4 4,618.00    | GROSS DEDUCTIONS    | 9 412.00      |
|                      | 5             |                     |               |
| NET PAY              |               | 4,206.00            |               |

### LEAVE BALANCE DETAILS

| Leave Types | Opening Balances Last Year | Current Year Entitlement | Availed Leave | Total Closing Balance |
|-------------|----------------------------|--------------------------|---------------|-----------------------|
| No Details  |                            |                          |               |                       |

- |                |   |
|----------------|---|
| 1 Pay Period   | 6 Employee's EPF Contribution           |
| 2 Basic Pay    | 7 Labour Welfare Fund                   |
| 3 Allowances   | 8 Employee State Insurance Contribution |
| 4 Gross Salary | 9 Total Deductions                      |
| 5 Net Salary   |   |

## Salary Slip Example 2

### Contract Employee's Salary Slip

|   |                        |   |                  |
|---|------------------------|---|------------------|
| <b>Adecco</b>   |                        | <b>A Adecco Flexione Workforce Solutions Pvt Ltd.</b> |                  |
| better work, better life  |                        | <b>1</b> Payslip for the month of JUNE 2011           |                  |
|   |                        | <b>B</b> Deployed At : FVRL BB DIAMOND HARBOUR        |                  |
| Employee No.  | : 387298               | PAN No.   |                  |
| Employee Name   | : DIPANKAR CHAKRABORTY | ESI No.   |                  |
| Designation   | : PROMOTER             | Client Employee id                                    |                  |
| Department  | : N/A                  | Paid Days   | 30.00            |
| Bank A/c No.  | : [REDACTED]           | <b>C</b> LOP Days                                     | 0                |
| Bank Name   | : HDFC Bank Ltd.       | <b>D</b> OT Hrs.                                      | 0.00             |
| PF No.  | : [REDACTED]           |   |                  |
| Location  | : WEST BENGAL          |   |                  |
| <b>EARNINGS</b>   |                        | <b>DEDUCTIONS</b>                                     |                  |
|   | <b>In Rs.</b>          |   | <b>In Rs.</b>    |
| Basic Salary  | <b>2</b> 2175.00       | ESI   | <b>7</b> 77.00   |
| Conveyance  | <b>3</b> 870.00        | Income Tax  | <b>8</b>         |
| House Rent Allowance  | <b>4</b> 1,305.00      | Labour Welfare Fund                                   | <b>9</b> 3.00    |
| Incentive   | <b>5</b> 2,675.00      | Provident Fund  | <b>10</b> 261.00 |
|   |                        | Professional Tax                                      | 30.00            |
| <b>Total :</b>  | <b>6</b> 7,025.00      |   | <b>11</b> 371.00 |
| Amount in Words : Six Thousand Six Hundred Fifty Four only.         |                        | <b>12</b> NET PAY                                     | 6,654.00         |
| Mode of Payment : Bank Transfer                                     |                        |   |                  |
| This is computer generated pay slip. Signature is not required      |                        |   |                  |
| For all your queries Call : 3532-3532(prefix your nearest STD code) |                        |   |                  |
| Mail : asc@adecco.com   |                        |   |                  |

**A** Contract agency's name

**C** Days for which pay is received

**B** Employer's company name

**D** Overtime hours worked

**1** Pay period

**7** Employee State Insurance Contribution

**2** Basic pay

**8** Income tax paid (if applicable)

**3** Conveyance

**9** Labor Welfare Fund

**4** Allowances

**10** Employee's Provident Fund

**5** Incentive (wage supplement/bonus)

Contribution

**6** Gross Salary

**11** Total deductions

**12** Net Salary

## Activity – Reading a Salary Slip

| Payslip for MAY 2011 |              |                     |                   |
|----------------------|--------------|---------------------|-------------------|
| <b>Employee Code</b> | 18673        | <b>Name</b>         | Asha Rani         |
| <b>Bank</b>          | HDFC         | <b>Bank A/c No.</b> | 06341140012678    |
| <b>DOJ</b>           | 15 Nov 2010  | <b>PF No.</b>       | HR/GGN/29000/1880 |
| <b>PAN No.</b>       |              | <b>Worked Days</b>  | 31                |
| <b>Department</b>    | CASH & CARRY | <b>Designation</b>  | Floor Associate   |

| Earnings             | Amount in Rs.   | Deductions              | Amount in Rs.   |
|----------------------|-----------------|-------------------------|-----------------|
| BASIC                | 2,750.00        | PROVIDENT FUND          | 330.00          |
| HOUSE RENT ALLOWANCE | 1,868.00        | LABOUR WELFARE FUND     | 1.00            |
|                      |                 | ESI                     | 81.00           |
| <b>GROSS EARNING</b> | <b>4,618.00</b> | <b>GROSS DEDUCTIONS</b> | <b>412.00</b>   |
|                      | <b>NET PAY</b>  |                         | <b>4,206.00</b> |

### LEAVE BALANCE DETAILS

| Leave Types | Opening Balances Last Year | Current Year Entitlement | Availed Leave | Total Closing Balance |
|-------------|----------------------------|--------------------------|---------------|-----------------------|
| No Details  |                            |                          |               |                       |

**Fill in the blanks below based on Neha's salary slip.**

For the pay period \_\_\_\_\_, Neha's total earnings were \_\_\_\_\_.

However, after deductions, she received a cheque for the amount of \_\_\_\_\_ which is her net earnings.

The largest deduction from her salary was for \_\_\_\_\_.

Neha did not earn any \_\_\_\_\_ this period.

## 1.5 Earning-Spending Equation

*How much we spend relative to how much we earn impacts our financial & emotional health.*

**If spending is...**

---

**Greater than earnings**, we will have to borrow to meet daily expenses. Although we may feel happy for a few days after we buy something new, we will also have a lot of tension for weeks & months afterwards as we worry about how to pay our bills & loans. *We should reduce and delay spending on non-essential items and quickly repay our loans*

*Spending > Earnings*



*Borrowing*

---

**Equal to earnings**, we are spending carefully and within our income. However, in this scenario we have no savings. In the event of a future need (e.g., Diwali, sister's marriage, illness, emergency), we could end up spending more than we earn. *We should look for opportunities to reduce spending (e.g., by cutting back on wants) in order to start saving*

*Spending = Earnings*



*Living day-to-day*

---

**Less than earnings**, we are managing our income responsibly by spending carefully and saving. The savings will be useful for covering irregular expenditures in the future (e.g., Diwali, sister's marriage, illness, emergency). *We must make sure we continue to save and use our savings wisely*

*Spending < Earnings*



*Savings*

---

**Trainer Note:** *If time is limited, ask students to form small groups. Assign each group one case study and allow them time to complete the activity per the instructions above. Then ask each group to share their work with the class and discuss the three case studies.*

## Activity – Apka Aaj Apka Kal Banata Hai

Read the case studies below & imagine what each person's financial situation will be in 5-10 years. For example:

- Will he or she have enough money for food & clothes?
- Will he or she live in a house or a hut?
- Will he or she own a scooter/cycle?
- Will he or she have to borrow money?
- Will he or she have to work a second job to increase his or her income?

Be creative!

### *Spending > Earnings*



*Borrowing*



Mohan works at Café Coffee Day and earns a net salary of Rs. 4,000. Every time he gets his salary, he immediately buys new clothes for Rs. 2,000 and sees 4 new movies for Rs. 500 total. He spends the remaining Rs. 1,500 buying food for his family, but often he cannot afford more than one meal a day for them.

### *Spending = Earnings*



*Living day-to-day*



Zara works as a ticket vendor in the metro. She earns a net salary of Rs. 3,500. She spends Rs. 3,000 providing daal & rice for her large family of 8 people. She spends another Rs. 300 to buy credit for her mobile phone. She spends the remaining Rs. 200 on sweets & drinks.

### *Spending < Earnings*



*Savings*



Sita works as a salesperson at Big Bazaar. She earns a net salary of Rs. 4,000. She spends Rs. 3,000 providing food for her family. She spends another Rs. 150 buying credit for her mobile and uses the landline as much as possible. Once a month, she treats herself to ice-cream for Rs. 50. She pays Rs. 200 for insurance and saves the remaining Rs. 600.

### Homework – Tracking Your Family's Expenses

*Using the table below, track how much money your family spends on each category in one week. Then estimate the total monthly expense by category.*

| Expenses               | Sun | Mon | Tues | Wed | Thur | Fri | Sat | Month |
|------------------------|-----|-----|------|-----|------|-----|-----|-------|
| Loan repayment         |     |     |      |     |      |     |     |       |
| Housing/rent           |     |     |      |     |      |     |     |       |
| Food                   |     |     |      |     |      |     |     |       |
| Water bill             |     |     |      |     |      |     |     |       |
| Gas supply             |     |     |      |     |      |     |     |       |
| Electricity bill       |     |     |      |     |      |     |     |       |
| School fees            |     |     |      |     |      |     |     |       |
| Medical care           |     |     |      |     |      |     |     |       |
| Transportation         |     |     |      |     |      |     |     |       |
| Petrol                 |     |     |      |     |      |     |     |       |
| Insurance              |     |     |      |     |      |     |     |       |
| Clothes & shoes        |     |     |      |     |      |     |     |       |
| Mobile credit          |     |     |      |     |      |     |     |       |
| Cable TV               |     |     |      |     |      |     |     |       |
| Cigarettes/pan         |     |     |      |     |      |     |     |       |
| Festival spending      |     |     |      |     |      |     |     |       |
| Movies/party           |     |     |      |     |      |     |     |       |
| Birthdays/ functions   |     |     |      |     |      |     |     |       |
| Other                  |     |     |      |     |      |     |     |       |
| <b>Total Expenses:</b> |     |     |      |     |      |     |     |       |







INDIA: C-17 Green Park Extension, New Delhi 110016 Tel: (91) 11 4611 8888 Fax: (91) 11 4611 8890  
NEW YORK: 216 E 45th St 7th Floor, New York, NY 10017 Tel: (1) 646 530 8977 Fax: (1) 212 661 9350  
CALIFORNIA: 4800 Great America Parkway, Suite 400, Santa Clara, CA 95054 Tel: (1) 408 916 1976 Fax: (1) 408 982 0784

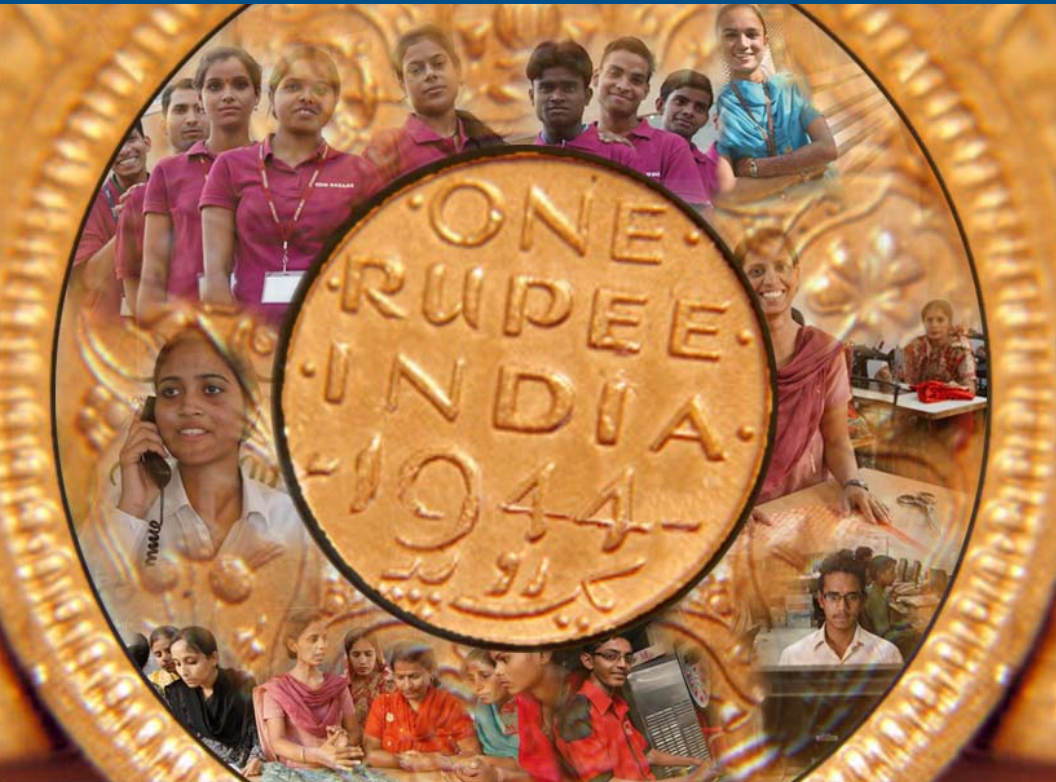
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# 2

## MODULE

# Spending

# आमदनी अठ्ठनी खर्चा रुपया



# 2

MODULE

## Spending

आमदनी अर्ण्णी खर्चा रुपया

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# Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with *essential* knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.

# Course Structure

## Modules:

- **Pre-Assessment**
- **Module 1:** Employment & Earnings
- **Module 2:** Spending
- **Module 3:** Savings
- **Module 4:** Borrowing
- **Module 5:** Financial Planning
- **Post-Assessment**

## Overarching Objectives:

- Explain the components of salary income so that students can read their salary slips
- Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
- Equip students to prioritize, budget, and plan for total expenses
- Highlight the financial and emotional costs of borrowing
- Explain the concept of return and link to borrowing for consumption vs. production
- Introduce the formal banking sector and its role in financial management & planning

## Outcomes:

*By the end of the curriculum, students should have:*

- Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
- Identified a short and long-term goal to provide ongoing motivation for savings
- Opened a savings account (or at least attempted to open one)

# 2

## MODULE

### Spending

### आमदनी अरूनी खर्चा रुपया

#### Module Structure:

| Topic |                                | Activities   | Suggested Timing |
|-------|--------------------------------|--|------------------|
| 2.1   | Understanding Spending         | Shopping Spree   | 45 mins          |
| 2.2   | Types of Expenses              | Going to the Market<br>Need or Want?                           | 120 mins         |
| 2.3   | Affordability                  | Can I Afford It?   | 30 mins          |
| 2.4   | Budgeting                      | Creating a Monthly Budget                                      | 60 mins          |
| 2.5   | Marketing & Pressures to Spend | Coke vs. Pepsi Taste Test<br>What Influences You?<br>Role Play | 120 mins         |

#### Module Objectives:

By the end of the module, students should:

- Grasp that money can be spent much faster than it is earned
- Understand the different types of expenses – fixed, variable, regular, & irregular
- Recognize the difference between needs & wants and know how to prioritize these expenses
- Understand the concept of affordability and judge whether one can afford an item under different scenarios
- Know how to create a monthly budget and make their own budget based on their anticipated income
- Recognize different forces that try to influence how we use our money, and develop tactics for resisting these pressures

## 2.1 Understanding Spending

### What is Spending?

- Spending is the process of using money to buy goods or services for consumption. Consumption means that once we spend the money, we cannot get it back.
- We all buy lots of things. Many of these things we use, but some of these things go to waste. By buying something that we do not make use of, we are not spending carefully.

### Spending

Spending is the process of using money to buy goods or services for consumption.

**Goods:** Physical objects that we can touch & feel

**Examples:** *Food, furniture, clothes*

**Services:** Things that we purchase but cannot touch

**Examples:** *Mobile phone credit, electricity service, bus travel, visit to doctor, water service*

**Consumption:** Purchase and use of goods & services. Once we use the good or service, we cannot return it or sell it for money



## A Rupee Spent Vs. A Rupee Earned

How long does it take to buy a new pair of jeans costing Rs. 1,000?

- **5 minutes** if you know exactly which brand, style, and size you want to buy
- **½ hour** if you want Levi's but have to try on different styles to see the fit
- **1 ½ hours** if you can't decide on what brand & style you want and have to look in many different shops

How long does it take to earn the Rs. 1,000 that you will spend?

Let's assume you earn a salary of **Rs. 200** per day

To earn Rs. 1,000, you will need to **work for 5 days**

But some of your gross salary will be go towards your EPF (Provident Fund) and ESI (State Insurance). So you might have to **work 7 days to receive Rs. 1,000 in your hand**

You also have to buy food & water. You might have to **work 10 days to save Rs. 1,000**

Money that takes days to earn can be spent in a matter of minutes!!! Therefore, it is important to think carefully before spending money and recognize the difference between needs & wants

**Trainer Note:** The purpose of this activity is to make students realize that it is much easier to spend money than earn it. The activity has been designed so that students first “dream” how they will spend their salary (step 1), then estimate the cost of all these items (steps 2-3), then compare the total cost to their expected salary (step 4).

- You should not give the students a salary range or constraint for Step 1 unless they struggle with the activity. You may need to give students guidance on their expected salary for step 4.
- After students have finished the activity, check their work to ensure it is realistic. Have they estimated the costs correctly? Have they prioritized basics like food over extras like parties

## Activity – Shopping Spree

How will you use your *first salary* when you receive it?

1. Write or draw below how you plan to use your first salary (in order of priority).

| Item |  | Item |  |
|------|--|------|--|
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
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|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |
|      |  |      |  |

2. In the second column, estimate the cost of each item.
3. Add up the total cost of all the items you have listed.

**Total Cost:** \_\_\_\_\_

4. How does this compare to your expected salary?

**Expected Salary:** \_\_\_\_\_

## 2.2 Types of Expenses

*This lesson starts with an activity to help students realize how easy it is to buy wants and how much money it takes to provide our basic needs.*

### Activity – Going to the Market

#### *Trainer Notes*

**Materials:** For this activity, you will need the following:

- Open space to create a “market” that students to walk around.
- Goods to sell (use the item cards in the supplemental materials of the curriculum).

**Preparation to do Before Class:**

- Set up the “market”, by posting the “item cards” on the wall.

**Conducting the Activity in Class:**

- Tell students that they have received one month’s salary worth Rs. 4,000. They must walk around the market and decide how to spend their salary. They should assume that they are the only person in their family who received income this month.
- To “buy” an item, the student should write down the name & cost of the item in his/ her student book.
- Once the student has spent all his/her salary, s/he should sit down.
- Discuss with the class how they used their salary:
  - ⊙ Did they take care of the basics first (food, water, electricity)?
  - ⊙ How much did they spend on needs vs. wants?
  - ⊙ How quickly did they run out of money?
  - ⊙ What did they forget to buy?
  - ⊙ What would they do differently?

*We can classify our spending as wants vs. needs. Recognising the difference between these is important for managing our spending.*

- We use money to buy things that meet our daily needs. Needs are items which are necessary to ensure that a family can survive. This includes basic food, shelter, clothing, and healthcare. In today's world, education is also a need as education helps one earn enough income to provide for needs.
- We also use money to enjoy things that are not required to survive but that we would like to purchase. These non-essential items are **wants**. Wants will vary from person to person and can include items like movies, scooter, TV, DVD player, ice-cream etc. Wants also include spending on festivals and social functions like marriage & childbirth. Not purchasing a want or delaying the purchase does not impact ability to survive.
- Each of us has a limited income and can choose how to spend it. However, we should make sure that we can meet our daily **needs** before considering any **wants**. Also, the more money we spend on wants, the less money we have to build a stable and happy future through savings and investments.

### **Needs vs. Wants**

**Needs** are things that are required for survival

**Wants** are things that we would like to have but are not required for survival

## Examples

### Needs

Basic food

Shelter

Basic clothing

Healthcare

Doctor/hospital

Medicines

Education

Electricity

Water



### Wants

Special foods,  
eating at  
restaurants

Living/staying in  
a hotel

Brand-name  
clothing

Scooter/bike/ car

TV/DVD player

Mobile phone

Entertainment  
(e.g., movies,  
party)

New cricket bat

Tours



## Activity – Need or Want?

1. With your classmates, determine if each item below is a need or want. Discuss why.

| Item                | Need or Want? | Explanation |
|---------------------|---------------|-------------|
| Milk                |               |             |
| Sweets for festival |               |             |
| Doctor's fees       |               |             |
| Movie ticket        |               |             |
| Levi's shirt        |               |             |
| School fees         |               |             |
| Coca-Cola           |               |             |
| Cigarettes          |               |             |

2. Review your responses to the “Shopping Spree” activity. Next to each item, indicate if it is a **need** or a **want**. Keep in mind the definition of need & want below.

## Needs vs. Wants

**Needs** are things that are required for survival

**Wants** are things that we would like to have but are not required for survival

*We can also classify expenses based on their time pattern and cost pattern. This is especially important for creating a budget, which we will do in lesson 2.3: Budgeting.*

**Classifying expenses based on *time pattern*:**

**Regular:** Regular expenses occur on an ongoing basis and in a fixed pattern/cycle *E.g., rent (monthly), milk (daily), grains (weekly), cable (monthly), school fees (monthly)*

**Irregular:** Irregular expenses do not occur in a fixed pattern and may be unexpected *E.g., medical costs due to illness, party, tour, repairs, guests, festivals, social functions*

**Classifying expenses based on *cost pattern*:**

**Fixed:** Fixed expenses cost almost the same amount every time we buy the item *E.g., rent, insurance premium/BIMA, cable*

**Variable:** Variable expenses cost a different amount every time we buy the item. They may cost more or less than the previous time. *E.g., Vegetables, rice, shoes, clothes, medical costs, social functions, petrol*

***Trainer Note:*** *Variable expenses cost a different amount every time because either:*

*(1) The market price changes (e.g., a kilo of rice is Rs. 18 today but Rs. 25 next year because there was little rainfall)*

*(2) We have many choices and do not purchase the exact same item every time (e.g., clothes, shoes)*

## Examples of Different Types of Expenses

|          | Regular   | Irregular  |
|----------|---|--|
| Fixed    | Rent<br>Insurance premium                               | Train ticket to village<br>Movie ticket  |
| Variable | Vegetables<br>Petrol for scooter<br>Mobile phone credit | Bus ticket for job interview<br>Medicines for illness<br>Repairs (e.g., car, scooter, TV)<br>Clothes & shoes |



**Irregular and variable expenses are usually the easiest to control!**

### **Trainer Note:**

- The table above classifies sample expenses based on their cost and time pattern. You can also create a list of these expenses and ask students to place each in the correct cell of the table.
- The classification of certain items can be debated depending on the context and situation. For example:
  - © A bus ticket to work is a fixed & regular expense, but a bus ticket for a job interview is variable because the fare depends on where the interview is
  - © Petrol for scooter would be a regular expense if someone drove their scooter to work every day and needed to fill petrol on a regular schedule. But it could be irregular if someone only uses their scooter occasionally on the weekend

## 2.3 Affordability

*Before purchasing something, we should always ask ourselves if we can afford it – especially if it is a want.*

- “Afford” means that we have enough money to purchase the item at that time, while still:
  - ◉ Providing for our daily needs (e.g., food, water, shelter, healthcare)
  - ◉ Fulfilling our obligations (e.g., loan repayment, giving money to family)
  - ◉ Saving for emergencies and our goals



### Activity – Can I Afford It?

Your salary is Rs. 4,000 and your regular expenses are Rs. 3,400. You want to buy a mobile phone that costs Rs. 3,000. Read each scenario below and decide if you can afford to buy the mobile. Circle the correct answer and explain why or why not.

- ***You have Rs. 2,500 in savings and borrow Rs. 500 from a friend to buy the phone***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

- ***You take a loan of Rs. 2,500 to buy the mobile***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

- ***You have Rs. 3,000 in cash today for the mobile but will have to take a loan of Rs. 2,000 next month to help pay for your sister's wedding***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

- ***You have Rs. 3,000 in cash today for the mobile but if you buy the phone you will not be able to eat for the next three days until you get your next salary***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

- ***You have Rs. 1,000 in cash today and you can take Rs. 2,000 from your savings***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

- ***You have Rs. 2,800 that you have been saving for a mobile, and you can get another Rs. 200 by not going to a movie this month like you usually do***

CAN AFFORD                      CANNOT AFFORD

Explanation: \_\_\_\_\_

## 2.4 Budgeting

*A budget can help us make smart choices about how we manage our money every day.*

- A budget is a plan for **spending** and **saving** money. It helps us decide how much money we can **afford** to spend on specific items on an ongoing basis.
- A budget helps us manage our money and live within our income. Income is the money we receive from our job (i.e., salary) or other sources.

*Creating a budget involves 3 steps:*

- **Estimate your regular monthly income:**  
Include only regular income, such as your salary. Do not include irregular income such as gifts or income from small side jobs as you cannot depend on this income on an ongoing basis.
- **Plan how you will use your regular income every month:**  
This should include the following:
  - ◉ **Loan repayment:** *if applicable*
  - ◉ **Money you have to give to your parents:** *if applicable*
  - ◉ **Needs and wants:** Address your needs first before thinking about wants
  - ◉ **Fixed and variable expenses:** For variable expenses, estimate how much you will spend on average every month
  - ◉ **Safety fund:** A small fund of money that you reserve for irregular expenses
- **Calculate the total money earned and total money used.** If your plan uses more money than you earn, you must cut back on some expenses. Remember that you cannot cut back on your loan repayment or you will have an angry lender chasing after you or keeping your possessions



**Trainer Note:** Students will practice this by making their own budgets which they can implement once they start working.

### Activity – Creating a Monthly Budget

| Regular Income (Money In):     |                  |
|--------------------------------|------------------|
| Net Salary                     | Rs. _____        |
| Other (_____)                  | Rs. _____        |
| <b>Total Income:</b>           | <b>Rs. _____</b> |
| Expenses (Money Out):          |                  |
| Loan repayment                 | Rs. _____        |
| Money to parents               | Rs. _____        |
| Housing/rent                   | Rs. _____        |
| Food                           | Rs. _____        |
| Utilities (water, electricity) | Rs. _____        |
| Transportation                 | Rs. _____        |
| Insurance                      | Rs. _____        |
| Clothing                       | Rs. _____        |
| Mobile credit                  | Rs. _____        |
| Entertainment (movies, party)  | Rs. _____        |
| Birthdays/social functions     | Rs. _____        |
| Other (_____)                  | Rs. _____        |
| Other (_____)                  | Rs. _____        |
| Other (_____)                  | Rs. _____        |
| Other (_____)                  | Rs. _____        |
| Fund for irregular expenses    | Rs. _____        |
| <b>Total Expenses:</b>         | <b>Rs. _____</b> |

Include only income that you receive on an ongoing basis

Include fixed & variable expenses and wants & needs

Are your expenses greater than your income? If so, you must reduce some expenses

## 2.5 Marketing & Peer Pressures

*There are many things that can influence how we spend our money*

- One such influence is **advertising & marketing**. Every day, we see or hear hundreds or thousands of **advertising messages** for different products and services. We also face lots of **marketing and consumerism pressures** when we go to the shops or market, such as:
  - ◉ Buy one, get one free!
  - ◉ Buy one, get one 50% off!
  - ◉ Buy this today for only Rs. 300 per month! (*buying on installments is like taking a loan – you pay a lot more for the item than if you had paid for it in full*)
  - ◉ Sale! Up to 70% off! (*often, only a small number of items are 70% off while the rest may be only 15 or 20% discount*)
- However, the products we buy are not always as good as they seem to be based on advertising or packaging
- Another influence on how we spend our money is **people**, such as **parents, siblings, friends, cousins, and celebrities**. Even **people we don't know**, like people we see on the street, can influence our spending by shaping our ideas of fashions & trends.



## Activity – Coke Vs. Pepsi Taste Test

### *Trainer Notes*

**Materials:** For this activity, you will need the following:

- 1 bottle of Coca-Cola & 1 bottle of Pepsi
- A disposable cup or glass for each student
- Examples of advertisements for Coca-Cola & Pepsi both (*if possible*)

**Preparation to do Before Class:**

1. Remove the labels and caps from each of the soft drink bottles
2. Write “A” on the Coca-Cola bottle & “B” on the Pepsi bottle

**Conducting the Activity in Class:**

1. Show students the sample advertisements for Coca-Cola & Pepsi. Ask the students to discuss what the ads tell them and how they make them feel.
2. Ask each student to write down in his/her student book which drink he prefers.
3. Pour each student a sip of drink “A”. Then pour each student a sip of drink “B”. *It is better to go student by student and serve each student one drink followed by the other, than to serve all students drink A and then serve all students drink B.*
4. Ask students which drink they liked better by raising their hands for drink A or B. *If the class is almost evenly split between drink A & B, you can emphasize that one drink is not “better” or “cooler” than the other.*
5. Ask students to write in their books which drink they liked better. Reveal which drink is Coca-Cola and which is Pepsi. Ask students to compare to their original answer.

### Activity – Coke vs. Pepsi Taste Test

1. Which drink would you rather have? (*circle one*)  
COCA-COLA                      PEPSI
2. Do the taste test exercise conducted by your teacher. Which drink did you like better?  
DRINK A                      DRINK B
3. After your teacher has revealed which is Drink A and which is Drink B, how does your answer to #2 compare to your answer to #1?

**Trainer Note:** *The activity below can be conducted as a written activity or class discussion.*

### Activity – What Influences You?

1. Write down what products & services you most often see advertising & marketing for.
2. Write down the people who influence how you use your money. Do they influence you to spend or save?
3. How do you decide to buy something that you want? Who do you talk to/listen to? How do you decide how much to spend? How many shops/items do you look at?

*There are many strategies we can apply to resist these pressures and use our money wisely.*

- Firstly, remind yourself that it is your salary and you can choose how to spend it.
- Ask yourself if the item is a need or want. Think twice before spending money on a want.
- Buy a different version of the same item for less money. For example, instead of buying brand-name jeans for Rs. 1,500, buy unbranded jeans for Rs. 300.
- Spend less time with people who like to spend a lot or influence you to spend.
- Avoid going to the bazaar/market/mall unless you really need something.
- Make a list when you go to the bazaar/market/mall and carry just enough money to buy what you need so that you are not tempted to buy other things.
- Buy mobile credit for a fixed amount and on a fixed cycle (e.g., once a month). If you use up the credit before the period is over, force yourself to manage without your mobile.
- Don't see a movie immediately when it is released. Instead, wait until your friends have seen it to find out if it is even worth seeing.
- Keep a copy of your budget in your purse or wallet so you can always remember your spending priorities.

**Trainer Note:** *Trainer can present these strategies to the students or ask students to suggest their own strategies for resisting pressures to spend.*

### Activity – Role Play

Form groups of 3-5 students and act out different situations where you encounter pressures to spend. 2-4 students should play the role of influences or pressures while 1-2 students in the group try to resist these pressures.

Example situations:

- Your friend buys a new mobile phone with lots of features and wants you to buy one too.
- You go see a movie at the cinema with your sister. After the movie, she wants you to treat her to lunch but you don't want to spend more money.
- You go to the bazaar to buy a new shirt for your job. The shopkeeper tells you he will give you a discount of Rs. 100 if you also buy jeans.
- Your little brother wants you to buy 10 new cable TV channels so he can watch more programs.







INDIA: C-17 Green Park Extension, New Delhi 110016 Tel: (91) 11 4611 8888 Fax: (91) 11 4611 8890  
NEW YORK: 216 E 45th St 7th Floor, New York, NY 10017 Tel: (1) 646 530 8977 Fax: (1) 212 661 9350  
CALIFORNIA: 4800 Great America Parkway, Suite 400, Santa Clara, CA 95054 Tel: (1) 408 916 1976 Fax: (1) 408 982 0784

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