Financial Literacy : What Does Your Money Do While You Sleep ?

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Purpose: Educational reading material, not investment advice

How to use this material

This is written study content for learners of all ages, from senior school students to working adults and retirees. Each section has a short explanation, a worked example and key points. The figures are from October 2026. Check current rates before taking any financial decision.

Learning objectives

After studying this material, a learner should be able to:

1. Explain what inflation is and why it matters more than the headline interest rate.
2. Prepare a simple monthly budget and an emergency fund target.
3. Compare a bank fixed deposit (FD) and a systematic investment plan (SIP) on risk, return and liquidity.
4. Use the Rule of 72 and the compounding formula for simple estimates.
5. Name the major ideas in money and investing, and the thinkers behind them.
6. Recognize common financial frauds and know where to check registrations.

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1. What is financial literacy?

Financial literacy is the ability to understand how money is earned, spent, saved, borrowed and invested, and to use that understanding to make sound decisions. It is not about becoming rich quickly. It is about avoiding costly mistakes and building security step by step.

A useful way to remember the subject is the five-part cycle:

- **Earn:** income from work, skills or a business.
- **Budget:** deciding in advance where money will go.
- **Save:** setting aside money for emergencies and short goals.
- **Grow:** investing for long goals.
- **Protect:** insurance, safe habits and fraud awareness.

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2. Earning and income

Income comes from three broad sources: **active income** (salary, wages, business work), **passive income** (rent, interest, dividends) and **capital gains** (profit when an asset is sold for more than its cost).

For most young people the largest lever is **earning power**, which grows with skills, education and experience. A person who builds useful skills raises income for decades, which is often more valuable than any single investment.

Key point: What you keep matters more than what you earn. Two people can earn the same salary and end up in very different positions, depending on spending and saving habits.

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3. Budgeting

A budget is a plan for money before the month begins. A widely taught starting rule is **50/30/20**:

Share	Use	Examples
50%	Needs	Rent, food, transport, school fees, loan EMIs
30%	Wants	Eating out, entertainment, travel, gadgets
20%	Savings and debt repayment	Emergency fund, SIPs, extra loan payments

This is a starting point, not a law. In high-cost cities, needs may exceed 50%. The habit of planning matters more than the exact ratio.

Worked example: A person earning ₹40,000 a month would plan ₹20,000 for needs, ₹12,000 for wants and ₹8,000 for savings and debt repayment.

Pay yourself first. Move the savings amount out on the day income arrives, instead of saving what is left at the end of the month. This idea, popularized by George Clauson's *The Richest Man in Babylon*, works because it removes the need for willpower.

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4. Saving and the emergency fund

An **emergency fund** is money kept for job loss, illness or urgent repairs. A common guideline is **three to six months of essential expenses**, held where it can be reached quickly (a savings account or liquid deposit).

Why first? Without an emergency fund, a sudden expense forces people to borrow at high interest or to sell investments at a bad time.

Worked example: If essential expenses are ₹25,000 a month, a six-month fund is ₹1,50,000.

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5. Inflation and real return

5.1 What is inflation?

Inflation is the general rise in prices over time. When it rises, each rupee buys less. India measures it through the **Consumer Price Index (CPI)**.

5.2 Current picture (October 2026)

- CPI inflation was **5.54% in September 2026**, with food inflation at about **7.74%**.
- Monthly CPI inflation from April to September 2026: **3.48%, 3.93%, 4.38%, 4.45%, 4.83%, 5.54%**. It rose every month.
- The RBI's target is **4%**, with a tolerance band of **2% to 6%**.
- On **7 October 2026**, the RBI raised the repo rate from **5.25% to 5.50%**, its first increase since February 2023, and moved its stance to "calibrated tightening".

5.3 Why inflation matters

At 5.54% inflation, ₹100 buys about ₹94.75 worth of goods after one year (100 ÷ 1.0554).

5.4 Real return

Real return ≈ Nominal return − Inflation rate (before tax).

If an investment earns 6.5% and inflation is 5.5%, the real return is about 1%. If inflation is higher than the return, the real return is negative and buying power falls.

Key point: Always compare a return with inflation, and remember that interest is usually taxable.

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6. Banking, the repo rate and fixed deposits

6.1 The repo rate

The **repo rate** is the rate at which the RBI lends short-term money to banks. When the RBI raises it, borrowing generally becomes more expensive and deposit rates may rise over time. A **basis point (bp)** is one hundredth of a percentage point, so a 25 bp hike equals 0.25%.

6.2 Fixed deposits (FDs)

An FD is a deposit for a fixed period at a fixed rate. It is simple, familiar and suited to short goals and capital protection.

Approximate rates in early October 2026 (banks revise these often, so check the bank's website):

Bank type	General customers	Senior citizens
SBI	up to about 6.40%	up to about 7.05%
HDFC Bank	up to about 6.50%	up to about 7.10%

Bank type	General customers	Senior citizens
Some small finance banks	higher	up to about 8%

Higher rates from smaller institutions may carry higher risk, so check the institution's regulatory status and financial strength.

6.3 Deposit insurance

Bank deposits are insured by the DICGC up to **₹5 lakh per depositor per bank** (verify the current limit with the DICGC). This covers principal and interest together, across all accounts the person holds in that bank.

6.4 Worked example: the FD in real terms

Deposit ₹10,00,000 for 5 years at 7.5% a year (compounded yearly):

- Maturity value = 10,00,000 × (1.075)^5 ≈ **₹14.36 lakh**.
- If inflation averaged 5.54%, the prices-adjusted value is 14.36 lakh ÷ (1.0554)^5 ≈ **₹11 lakh** in today's money.

Banks often compound quarterly, which gives a slightly higher figure. Interest is taxable under the person's income tax rules, so the final gain is lower.

Key point: An FD protects capital but may not protect buying power when inflation is high.

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7. Investing and the SIP

7.1 What is a SIP?

A **systematic investment plan (SIP)** invests a fixed amount in a mutual fund at regular intervals, usually monthly. Units are bought at the market price on each date. So more units are bought when prices are low and fewer when prices are high. This is called **rupee-cost averaging**.

7.2 Current picture

According to AMFI data for September 2026:

- SIP inflows reached a record **₹32,490 crore** in the month.
- About **10.06 crore** SIP accounts were contributing.
- Equity funds saw positive inflows for the **67th consecutive month**.
- Industry assets under management fell by about 5% in September, a reminder that markets go down as well as up.

7.3 The compounding formula

For monthly investments made at the end of each month:

Future value = P × [((1 + i)^n − 1) ÷ i]

where P is the monthly amount, i is the monthly rate (annual rate ÷ 12) and n is the number of months.

Worked example (illustration only, assuming 12% a year, which is not guaranteed):

Monthly SIP	Years	Amount invested	Approximate value
₹5,000	10	₹6 lakh	₹11.5 lakh
₹5,000	20	₹12 lakh	₹49.5 lakh
₹5,000	30	₹18 lakh	₹1.75 crore

The lesson is the effect of time: most of the final value in the 30-year case is growth on growth. Real returns vary year to year and can be negative in a given period.

7.4 FD versus SIP: a comparison

Feature	Bank FD	Equity mutual fund SIP
Return	Fixed in advance	Not fixed, depends on the market
Risk to capital	Low	Higher, especially in the short term
Best for	Short goals (1 to 3 years)	Long goals (5 years or more)
Inflation protection	Often limited	Historically better over long periods, not guaranteed
Access to cash	Premature withdrawal usually allowed with a penalty	Redeem in days, but value may be lower at that time

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8. Big ideas in money and investing

1. **Time value of money:** a rupee today is worth more than a rupee in the future, because it can earn a return and inflation reduces future buying power.
2. **Rule of 72:** divide 72 by the annual return percentage to estimate the years to double money. At 8%, money doubles in about 9 years (72 ÷ 8).
3. **Diversification (Modern Portfolio Theory):** Harry Markowitz showed that holding different assets can reduce risk without giving up all the expected return.
4. **Efficient market hypothesis:** prices already reflect available information, so beating the market consistently is difficult. This supports low-cost index investing for many people.
5. **Behavioural finance:** Daniel Kahneman and Richard Thaler showed that fear, greed and herd behaviour lead to predictable mistakes, such as selling in a panic.
6. **Margin of safety:** Benjamin Graham's idea of buying with a cushion so that errors do not become disasters.

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9. Learning from the thinkers

Thinker	Core idea	A note for learners
Benjamin Graham	Margin of safety; value investing	Dense but foundational
George Clason	Pay yourself first	Simple parables suitable for all ages
Morgan Housel	Behaviour matters more than intelligence	Few step-by-step methods
Robert Kiyosaki	Assets versus liabilities	Inspiring, but his specific advice is widely debated
Ramit Sethi	Automate saving and investing	Written mainly for a US audience
Indian finance educators	Local products, tax and market context	Quality varies, so verify claims

Skill for learners: read widely, check claims against official sources, and copy good habits rather than hype.

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10. Risks, fraud and safety

- **Guaranteed high returns** are a red flag. No one can promise market returns.
- **Never share OTP, PIN, CVV or passwords.** Banks do not ask for them.
- **Check registrations:** investment advisers and brokers on SEBI's website; banks and NBFCs on the RBI's website.
- **Be careful with borrowing:** credit card dues and some app-based loans can carry very high interest.
- **Do not invest money you cannot afford to lose,** and do not invest the emergency fund in the market.
- **Pause before acting:** scams rely on urgency. Take time and ask a trusted person.

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11. A practical five-step plan

1. Build an emergency fund of 3 to 6 months of essential expenses.
2. Get health insurance and, if others depend on your income, term life insurance.
3. Clear high-interest debt, such as credit card dues.
4. Start a SIP for goals five years or more away, and use FDs or similar safe options for short goals.
5. Review once a year, and do not panic-sell during market falls.

Glossary

- **Basis point:** one hundredth of one percent (0.01%).
- **CPI:** Consumer Price Index, a measure of retail inflation.
- **Compounding:** earning returns on both the original amount and on past returns.
- **DICGC:** the deposit insurance body that covers bank deposits up to the stated limit.
- **Diversification:** spreading money across different assets.
- **Emergency fund:** reserve for urgent, unplanned expenses.
- **FD:** fixed deposit.
- **Liquidity:** how quickly an asset can be turned into cash without a large loss.
- **Maturity:** the date when a deposit or bond ends and is repaid.
- **Real return:** return after subtracting inflation.
- **Repo rate:** the rate at which the RBI lends to banks.
- **SIP:** systematic investment plan.

Review questions

1. Why can a 6.5% FD give a very low real return when inflation is 5.5%?
2. A person earns ₹30,000 a month. Prepare a 50/30/20 budget.
3. Using the Rule of 72, how long will money take to double at 6%? At 12%?
4. Why is a SIP described as disciplined investing? What is its main risk?
5. Name two warning signs of an investment fraud.
6. Explain the difference between a nominal and a real return with an example.

Sources and cautions

- RBI Monetary Policy Statement, 7 October 2026 (repo rate and stance).
- MoSPI CPI release for September 2026 (inflation figures).
- AMFI monthly data for September 2026 (SIP figures).
- FD rate ranges from bank and market reports, 5 to 14 October 2026.

All projections use simple formulas and assumed returns. They are illustrations, not promises. Tax rules and bank rates change, so check current official sources. This material is for education and is not personalised financial advice.