

Money and Budgeting



Money



What is money?

What does it allow us to do?

Why does a currency work?

Money is:

- a unit of account;
- a store of value;
- a method of exchange.



Do These Make Good Money?



Used in Arabia and Egypt as a sign of status.



Used in parts of West Africa until mid-19th century.



Used to exchange things online since 2009.

Does the value of something change depending on who is using it or where?



Pound Notes and Coins

Why are these good?

What Makes Money Valuable?



Early money had intrinsic value – e.g. a gold coin.

This was used in the UK until 1931.

You could, in theory, take a bank note to the Bank of England and demand gold in exchange.

Now we have left the gold standard, and the value of the pound is no longer tied to anything. It has no intrinsic value, it works on belief in the system.

If enough people are willing to accept the pound, it works as a currency.



How is Money Created?

Banks – control how much money is in circulation.



- **Minting** – making physical coins.
- **Printing** – making paper money.
- **Fractional reserve banking** – i.e. borrowing and lending.

Example

If you give the bank £100, then you have £100 saved. But the bank does not keep all of it, it can lend some of it. If the bank then lends £90 to someone else, then they have £90 in addition to your £100, so £190 in total.



Key point: the bank doesn't keep all of the money put in all of the time – it lends it and grows it – so if everyone's trust in the bank broke down and everyone tried to withdraw their money at once, the system would break.

How is Money Created?

What would happen if everyone could create their own money?



Hyperinflation – there would be so much money that it would lose its value – and people’s belief in it would break down.

For example, in Germany after the First World War people would take their wages home in wheelbarrows and children played with money because the government printed so much of it.

Budgeting

What is a budget?

A plan for what you will spend – with a timescale.

Why budget?



- Puts you in control.
- Understand your spending better.
- It allows us to save for the future.
- Provides financial security.
- You can buy more of the things you like.

How Do We Budget?

Set Your Goals

- Identify and list your sources of income.
- Identify and list your expenses.
- Adjust expenses, income or timescale to achieve your goal.



Budgeting Exercise



What will you spend your money on? (e.g. phone, car, house)

- How much do these things cost?
- How much would you have to save to buy this?
- How long would it take to save enough money?

Example:

Item	Amount
income	+1200
living	-400
food	-180
tax	-150
travel	-70
fun	-200
Leftover	200

- **Income** – from your job: £1200 per month
- **Living** – a shared house: £400 per month
- **Food** – eating out once a week: £180 per month
- **Tax** – council tax and utilities: £150 per month
- **Travel** – public transport: £70 per month
- **Fun** – hobbies & going out etc.: £200 per month

Budgeting Exercise



- How much per month in total?
- What's left over?
- How many months will it take to save up to your target?

What kind of spender are you? Do you spend first and save later or save first and spend later?



Key point: you can adjust your income (harder), or how much you save and spend (easier) to achieve your targets more quickly.

We recommend saving 20% of what you earn.



Summary

Belief makes money valuable.

Set your goals and make a budget for them.

Save first, then spend.





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