

قررت وزارة التعليم تدريس
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المملكة العربية السعودية

Financial Literacy

Secondary Stage – Pathways System
Common First Year



The book is distributed freely and cannot be sold.

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Introduction

The progress and development of countries can be measured by their ability to invest in education and by the extent to which their educational system responds to the requirements and changes of the age. It is the responsibility of the Ministry of Education to sustain the development of its educational systems. In response to the concept of Saudi Arabia's Vision 2030 policy, the Ministry has taken the initiative in adopting the Secondary Education Pathways system with the aim of bringing about effective and comprehensive reform at the secondary stage.

The Secondary Education Pathways system provides a distinguished and modern educational model for secondary education in Saudi Arabia, which efficiently contributes to:

- strengthening the values associated with belonging to our homeland, the Kingdom of Saudi Arabia, and of loyalty to its wise leaders, may Allah protect them, based on pure belief founded on tolerant Islamic teachings.
- strengthening the values of citizenship by focusing on them in the school curriculum and in class activities, in line with the demands of sustainable development and the development plans of Saudi Arabia, which emphasize the consolidation of the duality of values and identity, founded on the teachings of Islam and moderation.
- offering qualifications to students that are in line with future specializations in universities and colleges or the required professions, and ensuring that educational outputs are consistent with the requirements of the labor market.
- enabling students to pursue education along their preferred track at an early stage, according to their inclinations and abilities.
- enabling students to enrol in specific scientific and administrative disciplines related to the labor market and future jobs.
- integrating students into an enjoyable and stimulating learning environment within the school, based on a constructive philosophy and applied practices within an active learning environment.
- guiding students on an integrated educational journey from the primary stage to the end of secondary stage, and facilitating the process of their transition to the post-general education stage.

- providing students with the technical and personal skills which will help them to deal with life and to respond to the requirements of the stage they are at.
- expanding opportunities for graduate secondary school students through various options in addition to universities, such as by obtaining professional certificates, joining applied colleges, and obtaining job diplomas.

The Pathways system consists of nine semesters taught over three years, including a common first year in which students receive lessons in various scientific and human fields, followed by two specialized years during which students follow a general pathway as well as four specialized pathways consistent with their inclinations and abilities. These are: the General Pathway, the Sharia Pathway, the Business Administration Pathway, the Computer Science and Engineering Pathway, and the Health and Life Pathway. This makes this system the best option for students in terms of:

- the existence of new study materials that comply with the requirements of the so-called Fourth Industrial Revolution and its associated development plans, as well as the Saudi Vision 2030 policy which aims to develop higher-order thinking, problem solving, and research skills.
- elective field programs which are consistent with the needs of the labor market and the students' own preferences. This enables students to enrol in a specific elective field according to a specific job skills matrix.
- an "inclination" scale that ensures the attainment of students' efficiency levels and effectiveness, and helps them to determine their own tendencies, predispositions, and strengths—all of which enhances their chances of success in the future.
- volunteer work designed specifically for students in line with the philosophy of activities in schools, which is also one of the graduation requirements. This helps to promote humane values, build up society, and ensures its development and cohesion.
- a transfer procedure that enables students to move from one pathway to another according to specific mechanisms.
- proficiency classes in which skills are developed and achievement levels improved, by providing intensive and remedial lessons.
- options for combining education with e-learning and blended learning/teaching, which are built into the Pathways system for reasons of flexibility, convenience, interaction, and effectiveness.
- a graduation project that helps students to integrate theoretical experiences with applied practices.
- professional and skill-based certificates that are awarded to students after completing specific tasks and certain tests in partnership with specialized bodies.



“Financial Literacy” helps students to:

- become familiar with and grasp the most important basic concepts of financial literacy.
- understand financial terms and future goals, and then use these to make sound future financial decisions.
- develop a culture of personal financial management.
- understand the importance of saving and investing for the future by linking the course lessons to the students’ own lives.
- develop an awareness of the different investment opportunities available for different life stages.
- develop an awareness of how financial literacy can be beneficial in approaching life and budgeting, and making decisions at the personal, societal, and professional levels.

This book, “Financial Literacy”, is characterized by promoting creative thinking and innovation using technical tools. The book emphasizes important aspects represented by:

- the close connection between the content and real-life situations and problems.
- presenting the content in diverse, attractive, and interesting ways.
- highlighting the role of the student in the teaching and learning processes.
- paying attention to the coherence of its content, which forms an integrated whole.
- encouraging the use of aspects of financial literacy in different situations.
- employing a variety of methods in evaluating the students, taking into account the individual differences between them.

In order to keep pace with global developments in this field, the book “Financial Literacy” provides the teacher with an integrated set of diverse educational materials that take into account the individual differences between students. Furthermore, it gives references to educational software and websites, all of which provide students with the opportunity to employ modern technologies and practice-based communication that serve to further confirm the book’s role in the teaching and learning process.

Finally, we ask Allah the Almighty to grant that this book may contribute to preparing and qualifying our sons and daughters as students for the world of work and business, and that it may act as an incentive to invest their energies wisely, to build their future, and to contribute to the development of their country.

It is Allah who grants success!

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1 Income



What is the average salary of a university graduate in Saudi Arabia?



LESSONS

- 1.1** What Is the Job Market?
- 1.2** How Does Education Affect Your Income?
- 1.3** What Is Self-Employment?
- 1.4** What Are Sources of Earned Income?

The choices you make now while you are still in school will affect your income later in life. The personal values and goals that you set for yourself will influence the way you will prepare for your future, from education to job skills. You must also consider economic factors and how they will affect your decisions. You might work in a large company or you may set up your own business to take advantage of opportunities within Saudi Arabia.

Link to digital lesson



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1.1 What Is the Job Market?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain what the job market is
- describe how values and goals affect people's job choices
- evaluate what you can do to prepare yourself for the world of work.

Key Terms

Job market	Nonverbal communication
Skill set	Job title
Hard skills	Job description
Soft skills	Value
Verbal communication	Goal

Job market

the job openings that are available when you are ready to go to work

The **job market** describes the jobs which are available when a person is ready to go to work. As employers' needs change, they need to recruit new people to fill new roles.

Change takes place all the time, especially in the job market. It is important to be able to identify the skills which are needed now and in the future. There will be new roles which don't exist today, so it is important to make sure you are able to learn the skills which will be needed.

Skill set

the unique skills and abilities that a person brings to the job market

The Right Skill Set

Each person has a unique set of skills and abilities that can be used. This is called a **skill set**. There are two groups of skills:

Hard skills

the measurable physical and mental abilities that allow a person to complete a job

1. **Hard skills** are learned tasks a person must be able to do to satisfy the job requirements. Examples include computer skills, foreign language skills, and typing speed.

2. **Soft skills** are patterns of behavior that allow a person to successfully work with others and complete tasks. Examples include leadership skills, communication skills, teamwork skills, problem-solving skills, and time-management skills. They can be learned through education and practice.

Soft skills

the nontechnical skills needed by most workers to be successful at work

Communication Skills

Communication is one of the most important soft skills in today's workplace. People need to communicate effectively with employers, co-workers, and customers.

Speaking and writing are basic **verbal communication** skills. A person might communicate face to face, by letter, phone, or digitally through emails, instant chat and messages, or video conferences.

The type of communication used should be relevant to the situation. For example:

- When you need the answer to a quick question, you might communicate face to face if the person is near or send an email if the person is not close by.
- If you want a meeting with a whole team with members in several locations, video conferencing may be more appropriate.

Verbal communication

using spoken and written language to transmit a message

► What soft skills do you use in your classroom learning?



Nonverbal communication

using body language to convey emotions, attitudes, and thoughts without the use of words

Nonverbal communication transmits messages without using words. It involves body language, such as facial expressions, hand gestures, and eye contact, to help people interpret verbal messages. For example, in many cultures:

- a nod shows understanding or agreement
- eye contact shows self-confidence and respect
- a smile shows friendliness.

Communication takes on many roles in a workplace, from presenting business ideas to employers and co-workers, to providing good customer service. Developing communication skills improves a person's chances of employability.

Job Choices

It is a good idea for you to begin planning for the type of job you want to do in the future. Some questions to help guide your future career options are:

- What types of jobs interest you?
- What subjects do you like?
- What subjects are you best at?

Some jobs pay a lot more than others, such as those in finance or in the health sector. The more experience, training, and education a person has in their skill set, the more they can expect to earn.

Saudi Vision 2030 has a number of Vision Realization Programs (VRPs), which are delivery plans aimed at matching the Kingdom's needs. In order for Saudi Vision 2030 to be successful, the VRPs are focused on growth industries and areas such as:

- the financial sector, which will require many financial analysts
- the health sector, which will require more doctors, nurses, and medical staff
- industrial development and logistics, which will require engineering design and monitoring professionals, IT specialists, and security staff.

Learning about Job Requirements

Jobs are often listed by their **job title**. For example, the job title software designer clearly shows what the job involves. A person with this job uses digital software to create computer programs.

Sometimes a job title alone is not enough to explain what the job is, so a **job description** is used. This often contains other information such as:

- education or experience required
- the hours worked
- details about the work site or location.

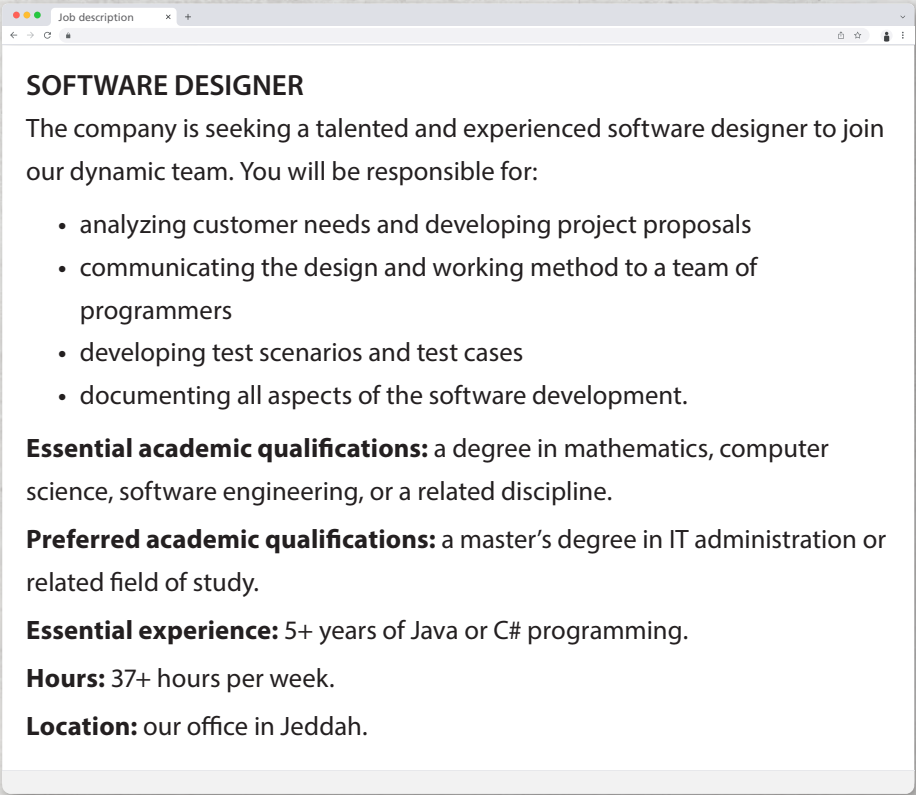
For an example of a job description, see Figure 1.1.1.

Job title

a name given to a particular job that may describe the main duty or task of the job

Job description

a description of the tasks, duties, and responsibilities of a role



The screenshot shows a web browser window with a job description for a Software Designer. The text includes the job title, a brief introduction, a list of responsibilities, and specific requirements for qualifications, experience, hours, and location.

SOFTWARE DESIGNER

The company is seeking a talented and experienced software designer to join our dynamic team. You will be responsible for:

- analyzing customer needs and developing project proposals
- communicating the design and working method to a team of programmers
- developing test scenarios and test cases
- documenting all aspects of the software development.

Essential academic qualifications: a degree in mathematics, computer science, software engineering, or a related discipline.

Preferred academic qualifications: a master's degree in IT administration or related field of study.

Essential experience: 5+ years of Java or C# programming.

Hours: 37+ hours per week.

Location: our office in Jeddah.

FIGURE 1.1.1

A Job Description

► Why are job descriptions important when selecting jobs to apply for?



Values and Goals Affect Your Job Choices

Value

a principle that reflects the worth you place on an idea or action

Goal

a desired outcome, based on one's values, for which a plan of action can be developed and carried out

As you think about a career that you might like to have, you should consider the **values** and **goals** that are important to you.

Important values include honesty, loyalty, kindness, and integrity. Values define who a person is and can influence the choices and decisions made. For example, if you want to be a bank manager, then honesty and integrity are very important qualities so that customers trust you with their savings. If you want to be a teacher, kindness and patience are important so that students feel comfortable with you.

Many people set goals that they want to accomplish. A person's goals affect his or her behavior and are often set to be achieved in a certain time frame.

A goal could be:

- **to develop a network:** When you start a new job, you will meet new people and form new relationships. This is how networks are built and can be used to find new jobs in the future or find solutions to work problems.
- **to become an expert:** This could be done by increasing knowledge, by experience and training. As you gain more qualifications, such as a digital marketing qualification, people begin to trust your judgment more.
- **promotion:** After finishing education, your first job might be quite junior, such as a marketing assistant, however after you gain more knowledge and experience, you could apply for jobs with more seniority and become a Marketing Manager or even a Director.

Review Questions

Choose the correct answer.

1. Which of the following is NOT a soft skill?
 - a. leadership
 - b. teamwork
 - c. computer programming ability
 - d. problem solving
2. Speaking and writing effectively are important communication skills.
 - a. true
 - b. false
3. It is important to start planning for a career while you are in school.
 - a. true
 - b. false
4. Which of the following describes a value?
 - a. a principle that reflects the worth you place on an idea or action
 - b. a desired outcome
 - c. a plan of action developed and carried out
 - d. the duties and responsibilities of a role
5. Which of the following questions would you NOT use to guide your future career options?
 - a. What types of jobs interest you?
 - b. What subjects do you like?
 - c. What does your friend want to do?
 - d. What subjects are you best at?



Link to digital lesson



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1.2 How Does Education Affect Your Income?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify different types of education and training
- explain the relationship between education and earnings.

Key Terms

Formal education

Informal education

On-the-job training

Off-the-job training

Self-training

Résumé

Salary scale

Education

There are many different types of education. Citizens in Saudi Arabia have compulsory education until high school. Students can choose whether to attend a vocational school or a high school with pathways specializing in:

- the General Pathway
- the Sharia Pathway
- the Business Administration Pathway
- the Computer Science and Engineering Pathway
- the Health and Life Pathway.

Some jobs require little further education, while other jobs require degrees which can take several years to complete.

Education can be formal or informal. In **formal education**, students must show that they have learned certain skills and concepts and have been able to pass tests. **Informal education** usually does not happen in classrooms; it often happens when working or through life experiences.

Formal education

involves attending classes and, often, earning a diploma or a degree

Informal education

unplanned and unstructured learning which is not part of a curriculum

Education in the Workplace

Informal education can happen in the workplace through **on-the-job training**. This is when you learn skills by having a mentor. They show you the exact skills you need to do your job successfully and check to see if your work meets requirements. However:

- you do not get any certificates to show you have reached a certain level
- it can be difficult to prove your ability if you decide to look for a job in another organization.

Workplace education can also happen through **off-the-job training**. This is when your employer pays for you to be trained in a skill which is needed for the business.

It usually involves:

- formal education with a certified training organization
- certification which you receive on successful completion of the course.

This then means that you have proof of achieving a certain level in a subject which you can use for new jobs or promotions.

Another way of learning new skills is by **self-training**. This is when you learn to use a piece of technology, such as a computer program, by:

- reading instruction manuals or reference books
- using written or video tutorials to teach yourself a valuable skill.

These skills can be listed on a **résumé** when you are able to perform them at an acceptable level.

The Relationship Between Education and Earnings

The amount and type of education you complete can affect the amount of money you earn. Usually, people who have a formal education earn more than people who have less or informal education.

On-the-job training

training that a person receives while they are working and getting paid

Off-the-job training

to have training away from the workplace

Self-training

learning new skills from reading and practicing on your own

Résumé

a summary of your education, skills, and experience to be used when applying for jobs





► What are some benefits of on-the-job training for the employer and the employee?

If the pay for a job is high compared to the education required, there is often a reason. The job might require a high level of experience which comes from practice and cannot be taught at university.

Using Education to Gain Promotion in the Workplace

When you work for an organization, there is often a **salary scale** which shows how much you will earn for each level of job. Organizations have salary scales so that potential and current workers know how much they are likely to be paid. For example, in the Saudi Civil Service, each job has its own salary scale, as shown in Figure 1.2.1.

Salary scale

the different levels and the range of pay for a particular job, based on level of skill or experience

Grade	STEPS															Annual Bonus
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1	3,000	3,135	3,270	3,405	3,540	3,675	3,810	3,945	4,080	4,215	4,350	4,485	4,620	4,755	4,890	135
2	3,430	3,595	3,760	3,925	4,090	4,255	4,420	4,585	4,750	4,915	5,080	5,245	5,410	5,575	5,740	165
3	3,945	4,135	4,325	4,515	4,705	4,895	5,085	5,275	5,465	5,655	5,845	6,035	6,225	6,415	6,605	190
4	4,530	4,760	4,990	5,220	5,450	5,680	5,910	6,140	6,370	6,600	6,830	7,060	7,290	7,520	7,750	230
5	5,240	5,505	5,770	6,035	6,300	6,565	6,830	7,095	7,360	7,625	7,890	8,155	8,420	8,685	8,950	265
6	6,065	6,370	6,675	6,980	7,285	7,590	7,895	8,200	8,505	8,810	9,115	9,420	9,725	10,030	10,335	305
7	7,010	7,375	7,740	8,105	8,470	8,835	9,200	9,565	9,930	10,295	10,660	11,025	11,390	11,755	12,120	365
8	8,010	8,425	8,840	9,255	9,670	10,085	10,500	10,915	11,330	11,745	12,160	12,575	12,990	13,405	13,820	415
9	9,275	9,745	10,215	10,685	11,155	11,625	12,095	12,565	13,035	13,505	13,975	14,445	14,915	15,385	15,855	470
10	10,275	10,785	11,295	11,805	12,315	12,825	13,335	13,845	14,355	14,865	15,375	15,885	16,395	16,905	17,415	510
11	11,815	12,345	12,875	13,405	13,935	14,465	14,995	15,525	16,055	16,585	17,115	17,645	18,175	18,705		530
12	13,435	14,005	14,575	15,145	15,715	16,285	16,855	17,425	17,995	18,565	19,135	19,705	20,275			570
13	15,180	15,785	16,390	16,995	17,600	18,205	18,810	19,415	20,020	20,625	21,230	21,835				605
14	17,015	17,715	18,415	19,115	19,815	20,515	21,215	21,915	22,615	23,315	24,015					700
15	20,855	21,720	22,585	23,450	24,315	25,180	26,045	26,910	27,775	28,640						865

FIGURE 1.2.1

Salary Scale in Saudi Arabia for Civil Servants (Government Data)

The salary scale for each job and organization is usually based on a number of factors:

- **the level of difficulty of the job role:** The more difficult the job role, the higher the salary scale will be. A technician who checks and maintains computers using basic skills will have a lower



salary scale than a computer programmer who makes sure that all the systems work together.

- **the amount of experience or training required:** Roles which require additional off-the-job training, like specialist doctors, will have higher salaries than general doctors who are not specialists.

There is often a range of pay within a particular grade. This is to make sure there is an incentive for employees to work hard even if they do not get promotions. Employees rise through the steps due to factors such as:

- **the employees' length of service within the organization:** When an employee stays in the same job role, they can get an annual increase within the range of pay up to a certain level.
- **level of education:** If a person has many certificates which are relevant to the job role, they are more likely to be nearer the top of the range of pay.

Planning Your Education Journey

Think about the type of education you want to complete and how well it will prepare you for the career or job you want later in life. Education will affect your current and future job choices. Making choices about education is a serious responsibility.

Education is considered an investment in your future. The jobs you choose and the education you receive will affect the amount of money you can earn. How much time and effort are you willing to spend to prepare for the job you want? How will you make yourself more employable than everybody else who is applying for the role?

It's never too early to start planning for your future.

LOOKING AHEAD



Using Figure 1.2.2 as a guide, what career do you think you may be interested in when you leave education?

To prepare for this career, conduct online research into:

1. What qualifications and/or experience will you need to get an entry-level position (the first job after education)?
2. What is the likely starting salary for the entry-level position?
3. How long will it take to reach each level of seniority within your chosen career?

Job	Monthly Salary in SAR
University Lecturers and Professors	8,765–28,710
University Teaching Assistants	6,650–12,460
Doctors	9,200–39,040
Pharmacists	7,420–29,180
Health Assistants	3,935–14,835
Judges	11,230–25,655
Court Attorneys	17,490–28,340
Chief Justices	24,510–37,530
Diplomatic Advisers	12,830–22,270
Investigators (Bureau of Investigation and Prosecution)	11,230–25,655

FIGURE 1.2.2

Salary Ranges for Different Jobs in Saudi Arabia (Government Data)



Review Questions

Choose the correct answer.

- Which of the following is an example of on-the-job training?
 - going to school
 - using video tutorials
 - following your mentor's instructions
 - reading the instructions
- You can only earn a high salary if you have a high level of education.
 - true
 - false
- A résumé is a document which shows the skills and experience needed when advertising a job role.
 - true
 - false
- Which of the following describes what the range of pay within a salary scale may depend on?
 - how friendly you are with the owner
 - whether you asked nicely for more pay
 - how many friends already work in the organization
 - the number of relevant certificates you have
- Which of the following is NOT a feature of informal education?
 - It usually happens in classrooms.
 - It usually happens in real-life situations.
 - It can involve learning while at work.
 - It is an unplanned and unstructured type of learning.
- You can often increase your salary simply by staying at the same company for a long time.
 - true
 - false

1.3 What Is Self-Employment?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify the advantages and disadvantages of self-employment
- evaluate whether you have the qualities needed to be an entrepreneur.

Key Terms

Entrepreneur	Small- or medium-sized
Profit	enterprise (SME)
Expenses	Productivity
Revenue	Gross domestic product (GDP)
Insolvent	Business plan

Link to digital lesson



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Self-Employment

Instead of joining the job market, many people dream of running their own business. Working for yourself is called self-employment. A person who takes the risks of being self-employed and owning a business is called an **entrepreneur**.

Entrepreneur

a person who sets up a business, taking on financial risks in the hope of profit

Advantages of Self-Employment

A major advantage of being the owner is that you get to make the decisions about how the business will be run. Major decisions include:

- the choice of products and services that will be offered
- the hours of operation
- the types of customers the business will target
- the prices it will charge.



Profit

the difference between the income (amount earned) and expenditure (money spent) when operating a business

Expenses

the cost of operating the business in order to make profit

Revenue

the income of a business, made from the sale of goods or services

Small business owners also keep all the profits of the business. **Profit** is the amount left after all **expenses** are deducted from the **revenues**. Among other things, expenses may include:

- **equipment** – such as computers, photocopiers, or printers
- **supplies** – the basic materials used in the production of a product or delivery of a service.

Disadvantages of Self-Employment

If the business does not make a profit, or does not make enough profit, it may fail. Factors that can affect profit include:

- decreased revenue from a slow period in the economy
- increase in competition leading to a loss in sales
- rising cost of business expenses.

With most small businesses, especially during their first years, the owners must work long hours and perform many different tasks to keep the business running such as:

- **sales and marketing:** to attract and grow customer numbers
- **stock ordering and management:** to make sure the store only has enough products to sell that are demanded
- **budgeting and finance:** to make sure that each product is profitable and affordable
- **customer service:** to create a good reputation to encourage customers to come back.

Owners may not be able to hire others to do the work for them due to a lack of cashflow. This may be due to:

- large spending on marketing to attract new customers
- low customer numbers due to limited customer awareness.

Most money invested in a small business comes from the owner and/or the owner's family and friends. If a business fails, the money invested in the business is lost and the business owner can become **insolvent** if they cannot afford to pay back any money that they owe.

Insolvent

when someone has borrowed money from others and cannot pay it back

Getting Started in Business

If you want to run your own business, you should spend time preparing yourself before you start. Many business owners seek formal and/or informal education about how to run a business before they get started. Some entrepreneurs first work for other businesses to gain needed knowledge and experience.

Becoming an entrepreneur and opening a **small- or medium-sized enterprise (SME)** is becoming very popular in the Kingdom of Saudi Arabia, with an estimated 15% growth in SMEs between 2022 and 2023 and employing 62% of all employment in the private sector.

There are many services designed to help entrepreneurs and small businesses and there are many funding opportunities available. The Small and Medium Enterprises General Authority (Monsha'at) was created to regulate, support, develop, and sponsor the SME sector.

Small- or medium-sized enterprise (SME)

a company with less than 250 staff members and annual revenue below SAR 200 million

► What different types of expenses might a business have?



Productivity

the measure of how much is produced (output) for every unit of input (e.g. labor, capital, or raw materials)

Gross domestic product (GDP)

the total value of all the finished goods and services produced within a country's borders

Business plan

a document that describes the steps that will be taken to open and operate a business

The main aims of Monsha'at are:

- to increase the **productivity** of SMEs
- to increase the contribution of SMEs to **gross domestic product (GDP)** from 20% to 35% by 2030
- to diversify (increase) the sources of funding available for SMEs.

Another good resource is KAUST MentorNet, which offers business mentoring services from a wide array of backgrounds by matching entrepreneurs with skilled mentors. They can give you advice on various issues, such as:

- **how to structure the business:** There are several different ways of structuring a business: as a sole proprietorship, as a partnership, or as a corporation (see Figure 1.3.1). You should choose the structure that is best for you and your business.
- **writing business plans:** If you have a good business idea, you should put your idea into writing. A good plan should show that you are worthy of funding (loans) from government and private sources, such as banks and venture capitalists.

FIGURE 1.3.1
Different Ways of Structuring
a Business



Sole Proprietor

- ownership by one individual
- the simplest form of business.



Partnership

- ownership by two or more people
- legal documentation is required.



Corporation

- ownership in the form of shares of stock
- involves multiple owners with different views
- owners' liability for any losses is limited to the investment into the corporation.



Is Entrepreneurship Right for You?

How can you decide if being an entrepreneur is the right choice for you? Your answers to the following questions will give you a better idea of whether you should consider owning your own business:

1. **Are you self-motivated?** Business owners must do what needs to be done without being told or reminded. They enjoy making their own decisions.
2. **Do you like people?** Getting along with others, including employees and customers, is essential.
3. **Are you a leader?** Entrepreneurs are able to get others to follow their lead.
4. **Do you take responsibility?** Entrepreneurs take charge and follow through.

► How could you develop the qualities needed to be an entrepreneur?



5. **Are you organized?** Business owners must have a good plan before they get started.
6. **Do you work hard?** Successful owners lead by example. They don't expect others to do what they themselves are unwilling to do.
7. **Do you make decisions easily and quickly?** Decisions sometimes have to be made without complete information.
8. **Are you trustworthy?** Others must trust you in order to build long-term relationships that benefit the business.
9. **Are you persistent?** Business owners stick with it, even when a situation is difficult to deal with. They finish projects and forget about excuses.
10. **Do you keep good records?** Entrepreneurs must account for their expenses and revenues. They should be knowledgeable about profitability and cost analyses.

LOOKING AHEAD



Could you be an entrepreneur? What business would you start when you leave education and/or gain some work experience?

To prepare for this possible enterprise:

1. Reflect on the questions above. Do you think you have the skills and attributes needed to manage your own business? If you do not yet think you can answer all the questions positively, could you learn or improve these skills in time?
2. Identify a hobby or an interest that you could turn into a business opportunity.
 - a. Would you want to turn this into a job or a career?
 - b. Would people be willing to pay for your product or service? Why?
 - c. Are you motivated enough to work hard to succeed?

Review Questions

Choose the correct answer.

1. There are no disadvantages to being an entrepreneur.
 - a. true
 - b. false
2. Profit is the amount of expenses left after all revenues are deducted.
 - a. true
 - b. false
3. A business plan is useful when applying for business loans or investment.
 - a. true
 - b. false
4. Which of the following is a reason why a new business owner might not be able to hire others to do the work at the beginning?
 - a. they have high levels of cashflow
 - b. profits are very high
 - c. there are large numbers of customers
 - d. cashflow is poor
5. Which of the following is a disadvantage of self employment?
 - a. choosing target customers
 - b. choosing the hours of operation
 - c. chance of insolvency
 - d. choosing the prices charged



Link to digital lesson



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1.4 What Are Sources of Earned Income?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify types of earned income, such as wages, salaries, tips, and commissions
- explain the advantages and disadvantages of different types of earned income.

Key Terms

Wage	Private sector
Overtime pay	Minimum salary
Salary	Tip
Public sector	Commission

What Are Sources of Earned Income?

Earned income is any income you receive from working. It includes wages, salaries, tips, commissions, and earnings from self-employment.

Working Hours

Saudi Arabia has limits on what working hours and periods are allowed for employees:

- a maximum of 8 hours per day over 6 days OR 48 hours per week
- no more than 10 hours in any one working day for most employees
- at least 10 hours of a continuous rest period every 24 hours.

An 8-hour day and 48-hour workweek are the standards in the Saudi workplace. Hours worked in addition to the standard are called overtime hours.

Wages

Employees who work for **wages** are usually paid for each hour worked. Jobs which pay a wage are usually used for manual, retail, or contract work where working hours are flexible. There is usually a maximum number of hours that are worked every week or month.

When employees must work overtime hours, they are entitled to extra pay called **overtime pay**. By law, overtime pay must be at least one and a half times the regular rate. People who work on holidays may be entitled to even higher pay rates for their hours. Although there are lots of advantages to earning wages, there are also some disadvantages, as shown in Figure 1.4.1.

Wage

a fixed amount of payment earned for labor for a determined time period

Overtime pay

pay received for hours worked in addition to regular hours

Advantages	Disadvantages
Employees are paid for the hours actually worked. Work in addition to "normal hours" is paid as overtime and bonuses are often paid for working on holidays.	If you do not work your regular hours, you will not be paid for them.
Often paid every week, although a pay period can be longer.	Less benefits than salaried employees, e.g. no holiday or sick pay.

FIGURE 1.4.1

Advantages and Disadvantages of Payment by Wages

In many jobs, new employees will begin with a lower wage because they do not yet have the education or experience to demand a higher wage rate.

Salaries

Some people work for a **salary**. Unlike people who work for wages, salaried workers rarely have to keep time cards or count hours worked. People who work for salaries often have professional jobs which are:

- full time
- permanent
- with fixed working patterns.

They also may have more flexibility in the times they work. However, they

Salary

a fixed amount received each month regardless of how many hours are worked





► Would you prefer to be paid wages or a salary? Why?

Public sector

part of the economy owned or controlled by the government

Private sector

part of the economy owned or controlled by private individuals or enterprises

Minimum salary

the lowest amount of pay per time period allowed by law

Tip

a gift of money, usually paid as a percentage of your bill, given to a person for performing a service

Commission

a set fee or percentage of a sale paid to an employee instead of, or in addition to, salary or wages

do not receive overtime pay for any additional hours worked beyond 48 hours a week.

Salaries may differ between the **public sector** and the **private sector**. The official **minimum salary** in Saudi Arabia in 2022 is SAR 4,000 per month for citizens.

Tips and Commissions

Some workers receive **tips** in addition to wages. The amount of the tip may be based on the quality of service provided. For example, many service employees, such as waiters and hair stylists, receive tips from satisfied customers. Some workers make most of their earnings from tips rather than hourly pay.

Some workers are paid a **commission**. Sales commissions are earned only when a sale is made. If no sale is made, no commission is received. In some types of jobs, such as real estate sales, the worker's entire earnings may be based on commission. For example, a real estate agent who sells a home for SAR 300,000 might receive a SAR 7,500 commission. In other types of jobs, workers may be paid a base salary plus commission. For example, a person who sells cars might receive a salary of SAR 80,000 a year plus 15% of the profit on each car sold.

Review Questions

Choose the correct answer.

- Which of the following is an advantage of a salary?
 - regular payment each month
 - increased reward for working more hours
 - employees have to complete time cards
 - varied work patterns
- Minimum salaries are guaranteed for all employees in Saudi Arabia.
 - true
 - false
- Employees in full-time, permanent jobs with fixed working patterns usually work for wages.
 - true
 - false
- Which of the following describes an advantage of tips?
 - tips are regular income
 - earning tips helps you to budget accurately
 - income is improved by providing quality service
 - tips are received from unsatisfied customers
- In which of the following roles could payment by commission be a positive motivator?
 - doctor
 - teacher
 - salesperson
 - judge
- There are no limits to working hours in Saudi Arabia.
 - true
 - false



Chapter 1 Assessment

SUMMARY

- 1.1**
- The job market refers to the job openings that are available when you are ready to go to work. It is continually changing.
 - Both hard skills and soft skills are necessary for career success.
 - The career that you choose will affect your income over your lifetime.
 - Decisions and choices that you make, both personal and career related, are based on your values and goals.
- 1.2**
- Different levels of education are required for different jobs and careers.
 - Education can be formal and informal and each have benefits and drawbacks.
 - On- and off-the-job training are methods of workplace education which can help you to develop your skills. It is also possible to self-train.
 - All of your skills and experience should be listed on your résumé to help find employment.
 - The more formal education you gain, the more you will probably earn over your lifetime.
 - Different levels of experience access different salary scales.
 - It is important to start planning your education journey now.
- 1.3**
- Entrepreneurs are self-employed. It is often useful to gain experience before starting your own business.
 - Business owners can keep the profits, but if revenues decrease and expenses increase, the business may fail.
 - It is important to write business plans, prepare, and be ready to work hard if you start your own business.
 - There is lots of support in Saudi Arabia for self-employed people to achieve the goals of Saudi Vision 2030.
 - Entrepreneurship is not always the right choice for a person.
- 1.4**
- Sources of earned income include wages, salaries, tips, commissions, and net earnings from self-employment.
 - There are benefits and drawbacks to each source of earned income.
 - Each source of income is often suited to specific jobs, careers, and industries.

KEY TERMS

For each lesson, match the terms listed with their definitions. Write the letters of the correct definitions.

Lesson 1.1

Term	Your choice	Definition
1 Goal		a the unique skills and abilities that a person brings to the job market
2 Hard skills		b using spoken and written language to transmit a message
3 Job description		c a name given to a particular job that may describe the main duty or task of the job
4 Job market		d the nontechnical skills needed by most workers to be successful at work
5 Job title		e a principle that reflects the worth you place on an idea or action
6 Nonverbal communication		f the measurable physical and mental abilities that allow a person to complete a job
7 Skill set		g a description of the tasks, duties, and responsibilities of a role
8 Soft skills		h the job openings that are available when you are ready to go to work
9 Value		i a desired outcome, based on one's values, for which a plan of action can be developed and carried out
10 Verbal communication		j using body language to convey emotions, attitudes, and thoughts without the use of words

Lesson 1.2

Term	Your choice	Definition
1 Formal education		a to have training away from the workplace
2 Informal education		b learning new skills from reading and practicing on your own
3 Off-the-job training		c unplanned and unstructured learning which is not part of a curriculum
4 On-the-job training		d a summary of your education, skills, and experience to be used when applying for jobs
5 Salary scale		e involves attending classes and, often, earning a diploma or a degree
6 Résumé		f training that a person receives while they are working and getting paid
7 Self-training		g the different levels and the range of pay for a particular job, based on level of skill or experience



Lesson 1.3

Term	Your choice	Definition
1 Business plan		a the income of a business, made from the sale of goods or services
2 Entrepreneur		b the measure of how much is produced (output) for every unit of input (e.g. labor, capital, or raw materials)
3 Expenses		c a company with less than 250 staff members and annual revenue below SAR 200 million
4 Gross domestic product (GDP)		d the cost of operating the business in order to make profit
5 Insolvent		e when someone has borrowed money from others and cannot pay it back
6 Productivity		f a person who sets up a business, taking on financial risks in the hope of profit
7 Profit		g the total value of all the finished goods and services produced within a country's borders
8 Revenue		h the difference between the income (amount earned) and expenditure (money spent) when operating a business
9 Small- or medium-sized enterprise (SME)		i a document that describes the steps that will be taken to open and operate a business

Lesson 1.4

Term	Your choice	Definition
1 Commission		a pay received for hours worked in addition to regular hours
2 Minimum salary		b part of the economy owned or controlled by private individuals or enterprises
3 Overtime pay		c a gift of money, usually paid as a percentage of your bill, given to a person for performing a service
4 Private sector		d a fixed amount of payment earned for labor for a determined time period
5 Public sector		e a fixed amount received each month regardless of how many hours are worked
6 Salary		f a set fee or percentage of a sale paid to an employee instead of, or in addition to, salary or wages
7 Tip		g the lowest amount of pay per time period allowed by law
8 Wage		h part of the economy owned or controlled by the government

PROBLEMS

1. Explain one major skill a job applicant must have which is required in today's workforce.

2. Why does the job market change over time?

3. Explain one reason why some jobs pay more than others.

4. Why is it important to read a job description carefully?

5. Why is education now an investment into your future?



6. Explain one benefit of off-the-job training.

7. Why is it important to keep self-training?

8. What is the most important skill an entrepreneur needs?

9. What is the biggest challenge of owning your own business?

10. Explain the main purpose of a business plan.

11. Why is there often a pay range for each salary scale?

12. How is being paid a salary different from being paid hourly wages?

13. What is a benefit of commission-based pay?

EXERCISES

Choose the correct answer.

1. Which of the following is NOT a positive value?
 - a. honesty
 - b. loyalty
 - c. manipulation
 - d. integrity

2. A job description describes the tasks a person is required to do as part of their job.
 - a. true
 - b. false

3. Which of the following is NOT a business or employment goal?
 - a. develop a network
 - b. go home early every day
 - c. become an expert
 - d. get promoted



4. On-the-job training is not a valuable form of education.
 - a. true
 - b. false
5. Which of the following is NOT a valid reason for the salary being high compared to the education required?
 - a. a high level of experience required
 - b. skills cannot be taught at university
 - c. being friends with the CEO
 - d. lots of practice required
6. It is not a good idea to start planning for your future too early.
 - a. true
 - b. false
7. An entrepreneur wants to work in a large organization as a manager.
 - a. true
 - b. false
8. Which of the following is NOT an advantage of self-employment?
 - a. choosing the products or service offered
 - b. deciding when to open and close your business
 - c. deciding the prices to charge
 - d. having to work long hours in the first years
9. Small- or medium-sized organizations have fewer than 500 staff members and annual revenue below SAR 350 million.
 - a. true
 - b. false
10. A benefit of wages is that you have a regular income.
 - a. true
 - b. false
11. Which of the following is often true for salaried workers?
 - a. are paid for hours worked
 - b. are usually paid weekly
 - c. have fixed working patterns
 - d. are usually entitled to overtime pay

12. A tip is usually a percentage of a sale paid to an employee in addition to a salary.
- a. true
 - b. false

MINI CASE

Yasser's Vehicle Leasing Business

Yasser leases vehicles to large business organizations. A normal order from an organization is to lease between 50 and 100 cars for a three-year period. Yasser's business has been successful in Jeddah and he now plans to expand into Riyadh.

Yasser needs to hire a manager and a salesperson in Riyadh.

1. Choose the best method of payment for each role and explain your choice:

- a. manager

- b. salesperson

2. Explain why soft skills will be very important for the salesperson.

3. Explain which hard skills may be important and highlighted on the manager's job description.





Do you spend most of your money on things you want or things you need?

2

Spending

LESSONS

- 2.1 What Are Needs and Wants?
- 2.2 How Do Consumer Behaviors Affect Prices?
- 2.3 What Are Buying Strategies?
- 2.4 What Is a Buying Plan?

It is important to keep track of not only the money that you earn, but also the money that you spend. In this chapter you will look at how to manage your financial resources to ensure that you are able to buy the things you want, as well as the things you need. You will then consider how customer buying patterns and strategies affect the market and the price of a product.



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2.1 What Are Needs and Wants?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain the difference between needs and wants
- explain how financial resources help fulfill needs and wants.

Key Terms

Needs

Disposable income

Wants

Financial resources

Needs

things you must have for survival

Wants

refers to what people desire for reasons beyond survival and basic needs

Disposable income

the income available to spend after basic needs have been paid for

Needs and Wants

Every person has **needs** and **wants**. It is important to prioritize paying needs before anything else as, without these, you will not be able to live. Common needs are:

- food
- water
- clothing
- shelter
- medical care.

Once you have paid for your needs, you can then spend what is left over to buy things that you want with your **disposable income**. These items simply allow you to enjoy life more. Examples of wants include:

- a new phone
- a video game
- a big-screen TV.

Luxury items, which are often very costly, often fill emotional wants rather than physical needs.

Resources Limit Choices

Although people's **financial resources** are limited, their needs and wants are unlimited and growing. Because most people do not have enough financial resources to meet all of their needs and wants, they must make choices.

The choices available to a person will be fewer for someone with less financial resources. This person may need to spend all of his or her resources to cover basic needs. For a person with more resources, more choices will be available. People who have high disposable incomes can consider buying luxury items they may want.

Financial resources

money or other items of value that are used to acquire goods and services

► Identify the needs and the wants in this picture.



LOOKING AHEAD



How can you measure whether you are able to meet your financial needs now and in the future?

Review Questions

Choose the correct answer.

- Which of the following is an example of a need?
 - a new laptop
 - a new phone
 - a bottle of water
 - a video game
- It is more important to spend your money on wants than needs.
 - true
 - false
- Luxury items are often used to fill emotional needs.
 - true
 - false
- Financial resources are unlimited.
 - true
 - false
- Which of the following is an example of what disposable income may be spent on?
 - shelter
 - medical care
 - a new phone
 - water
- Which of the following is NOT an example of something that could limit financial choices?
 - having a low-paid job
 - high cost of basic needs
 - earning a pay rise at work
 - losing your job

2.2 How Do Consumer Behaviors Affect Prices?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify different types of consumer behaviors (rational buying, emotional buying and impulse buying)
- explain the difference between economizing and optimizing.

Key Terms

Market economy	Economizing
Emotional buying	Optimizing
Impulse buying	Value
Rational buying	Overspending

How Do Consumer Behaviors Affect Prices?

Consumers play a vital role in setting prices in a **market economy**. When consumers shop carefully and wisely, they help keep prices low. When consumers do not buy wisely, their actions lead to higher prices because of increased demand.

Market economy

production and prices are determined by competition between privately owned businesses

Consumer Behaviors

Consumers behave in many different ways when shopping. Their behavior depends on many factors, such as scarcity, time, and demand.

1. Emotional Buying

When a person is feeling bored, excited, or hopeful, they may make unwise purchases. This is **emotional buying** and it is often based on feelings rather than logic. There are different motives for emotional buying (see Figure 2.2.1).

Emotional buying

the process of purchasing products based on desire rather than logic

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FIGURE 2.2.1
Motives for Emotional Buying

Pride	the need to prove how important or rich a person is to others (and themselves)
Fashion	the need to look and dress like famous people or use similar products
Habit	a person is used to buying a particular product and does so without thinking
Beauty	if a product looks beautiful or aesthetically pleasing

Impulse buying

purchasing something as a result of a sudden decision, without any plans to do so beforehand

Rational buying

the process of selecting goods and services based on needs, wants, and logical choices

► What emotions and thought processes are used in an electronics store?

2. Impulse Buying

When a person sees something in the store and grabs it without thinking, they are **impulse buying**. Shops usually display low value, consumable items at key points, such as center aisles, the ends of aisles, and checkout areas. The sellers are hoping the items will catch the customer's eye and prompt them to buy without thinking.

3. Rational Buying

When consumers act in their own best self-interests and use logic instead of emotion to make purchasing decisions, they use a **rational buying** strategy.



There are various different factors to consider in rational buying (see Figure 2.2.2).

Durability	How long will the product last and how much does it cost to maintain?
Suitability	Does the product meet the buyer's needs and requirements?
Economy	Is the product good value for money?
Safety	What safety requirements does the product meet?

FIGURE 2.2.2

Factors to Consider in Rational Buying

Emotional and impulse buying can lead to buyer's remorse. This is when a person later realizes that a poor buying decision was made and the product is of poor quality or value. Rational buying often tends to be for more high value products which are intended to be used or kept for longer periods of time.

There are two basic strategies for rational buying of goods and services: **economizing** and **optimizing**. Consumers can use the strategy that best fits their needs for different goods and services. They should also use the strategy that best fits the state of the economy or their bank account at the time.

Economizing

Consumers are economizing when they save as much as possible and spend money only when necessary. Using this approach, consumers:

- wait until it is necessary to buy a product
- buy as little as possible and at the lowest price they can find
- do not buy large quantities, or more than is currently needed
- try to spend as little money as they can for the needed product.

Economizing has its advantages. For example, delaying the purchase of something may result in not buying it at all. Economizing can also lead to savings and better buying habits.

For some people, economizing is the only plan that allows them to meet their basic needs. For other people, economizing is a strategy used during uncertain times as a way to save money for later spending or investing.

Economizing

saving as much as possible and spending money only when necessary

Optimizing

getting the highest value for the money spent



When economizing, people may spend little or no money on luxuries. People may also spend less on items for basic needs, such as food or clothing. Thus, lower demand for products may lead to lower prices.

Optimizing

Another spending strategy is called optimizing. Using this approach, more emphasis is placed on **value** than the total purchase cost. This strategy takes the form of consumers purchasing:

- in large quantities to take advantage of discount pricing
- products on sale and storing them until needed
- high-quality products or services.

For example, if a product that is used often is on sale and can be stored over time, a large quantity can be purchased to take advantage of discount pricing. When items are packaged and sold in large quantities, the cost per item is usually lower.

When consumers are optimizing, demand is higher when prices are lower. Customers will buy more of a product to take advantage of lower prices. Consumers should be careful not to let optimizing lead to **overspending**. Shoppers may be tempted to buy items they do not need simply because the items are a bargain.

Value

the amount of money a product is worth, or its usefulness

Overspending

spending more than the allocated amount



► Why is buying one six-pack of a product cheaper than buying six individual products?

LOOKING AHEAD



How might you optimize your spending if you are saving for an expensive product?

Consider:

1. What are your essential current needs? How much do they cost?
2. How much do you spend on the things you want to buy?
3. How long would you want to wait before buying the expensive product?

Review Questions

Choose the correct answer.

1. Which of the following is a motive for rational purchasing?
 - a. pride
 - b. beauty
 - c. value
 - d. habit
2. Market prices are only affected by costs, not competition.
 - a. true
 - b. false
3. Optimization occurs when prices are lower.
 - a. true
 - b. false
4. Which of the following options does NOT often lead to an impulse buy?
 - a. low cost
 - b. consumable items
 - c. displayed at checkout areas
 - d. high cost
5. High-value products are always the cheapest option.
 - a. true
 - b. false



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2.3 What Are Buying Strategies?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify the advantages and disadvantages of comparison shopping in different places
- identify strategies that consumers can use before, during, and after a purchase to help them maximize their purchasing power.

Key Terms

Consumer

Bankrupt

Comparison shopping

Unit price

Consumer

a person who buys goods for personal use

Buying Strategies

Sellers have strategies to encourage you to buy. As a **consumer**, you should have strategies to help you maximize your purchasing power. Some ideas to help you in your role as a consumer are given in the following sections.

Before You Shop

Prior to shopping, there are some things you should do to help make the most of your shopping experience:

1. Comparison shop

The Internet is a good resource for **comparison shopping**. By checking competitor websites, you can learn about:

- product prices
- product features
- special offers.

Comparison shopping

checking prices, brands, and quality among several sellers to make sure you are getting the best deal

There are advantages and disadvantages of online comparison shopping (see Figure 2.3.1).

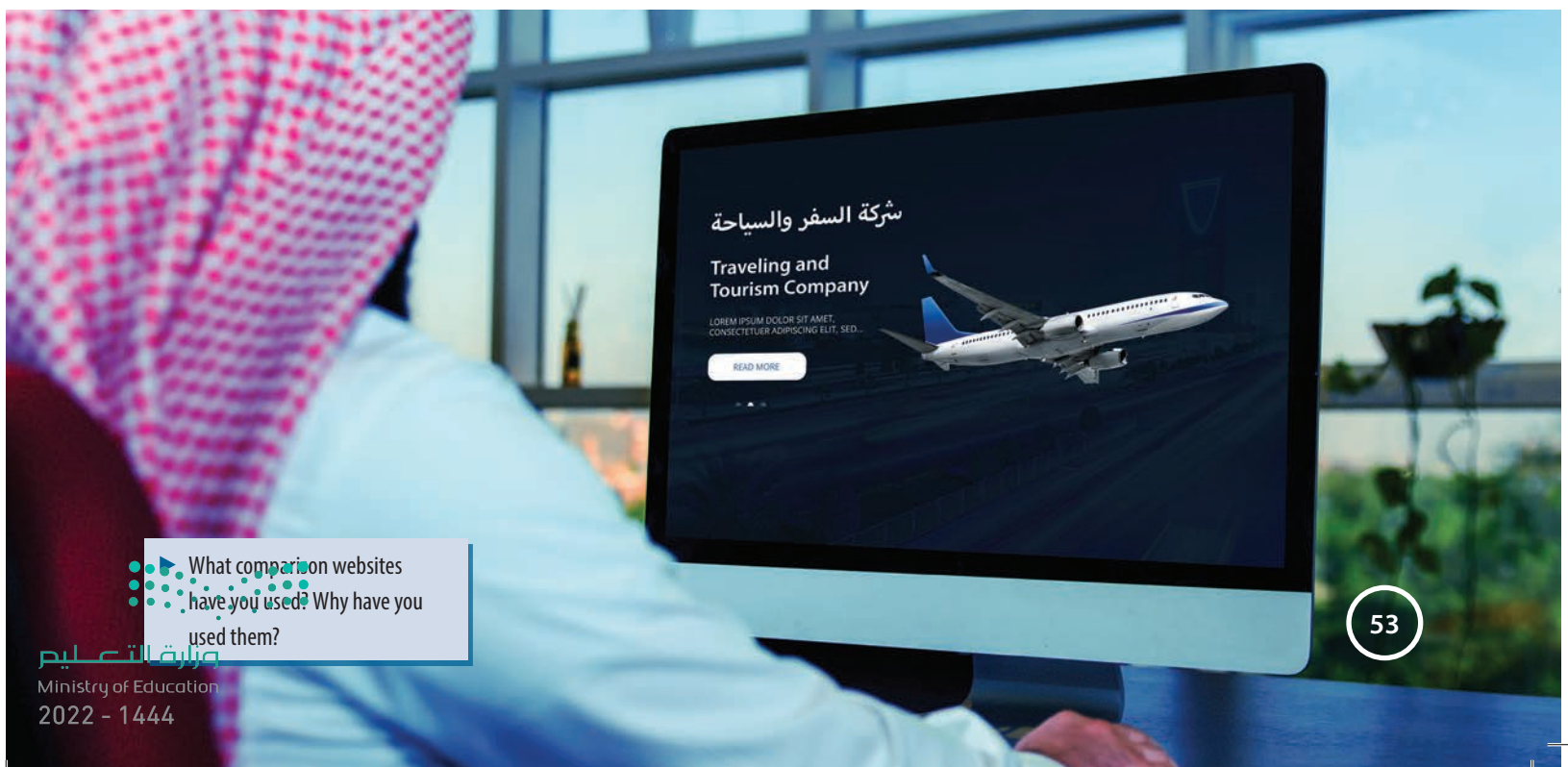
Advantages	Disadvantages
It is quick to visit many different virtual locations.	It is hard to judge the quality of an item from an image.
You can gain a lot of technical knowledge about a product which might be difficult to do in store.	There may be limited time offers which increase impulse purchasing.

FIGURE 2.3.1
The Advantages and Disadvantages of Online Comparison Shopping

You can also go to shopping malls or stores to comparison shop. There are also advantages and disadvantages of comparison shopping in a physical location (see Figure 2.3.2).

Advantages	Disadvantages
You can better judge the quality of an item.	It takes more time than online comparison shopping.
You can check whether an item is good value or not.	You do not always have easy access to as much information.
	You may not always be able to keep notes as easily.

FIGURE 2.3.2
The Advantages and Disadvantages of Comparison Shopping in Malls/Stores



What comparison websites have you used? Why have you used them?

2. Plan your purchases

Prepare a shopping list of the things you need. Decide ahead of time what you will buy and approximately how much you will spend. Also, plan how you will pay for the items. For example, you could pay with your own money or borrow money to buy them. Planning ahead will help you avoid overspending or buying items that you do not need.

3. Pick the best time to shop

Shopping can be a tiring and stressful activity if you don't shop at a time that works well for you. Do not plan to go shopping when you are very emotional, hungry, sad, angry, or frustrated, or even unusually happy. Strong emotions can affect your state of mind and your choices. This is what can lead to impulse purchases which you may regret in the future.

4. Research businesses

Use your local guides and customer review sites to be sure you are shopping at a qualified and reputable business. If shopping online, research websites before you place an order. If a product offer seems too good to be true (if it is too cheap), then there is a strong chance you may be disappointed.

While You Shop

The following strategies should be used when you shop:

1. Avoid impulse buying

You can avoid impulse buying by:

- taking a list with you when you shop and buy only what is on the list
- avoiding products on display that attract your attention but are unnecessary
- not making last-minute purchases at the checkout
- not buying something just because it's on sale.

2. Read labels

Know ingredients and materials and what they mean. For example, a shirt that is 100% cotton will probably shrink if you wash it on a high

heat and may be uncomfortable in warm weather.

3. Understand sales terminology

- A **sale** means that goods are offered at a reduced price for a short period of time.
- **Clearance** means the business wants to sell old stock to reduce storage costs.
- **Liquidation** means the business wants to sell everything right away, often if a business is going **bankrupt**.

4. Read contracts

If you are making a purchase that requires a contract, be sure to read and understand it before you sign it.

5. Calculate unit prices

The lowest **unit price** for products of comparable quality is the best buy. Figure 2.3.3 shows how to compute unit prices.

6. Compute total cost

Check the total cost of a product, including additional items (such as batteries), shipping and handling charges, finance charges, and other additional or hidden costs.

Bankrupt

a person or organization declared by law as unable to pay their debts

Unit price

the cost of an individual item when sold as a multipack

► Are all items purchased on sale good value?



FIGURE 2.3.3
Calculating Unit Prices

The formula for calculating unit prices is:

$$\frac{\text{Price of the item}}{\text{Number of units per measure}}$$

The unit costs of a 230-gram box of cereal that sells for SAR 20.50 and a 750-gram box of cereal that sells for SAR 34.50 are calculated as follows:

$$\frac{\text{SAR 20.50}}{230 \text{ grams}} = \text{SAR 0.09 per gram}$$

$$\frac{\text{SAR 34.50}}{750 \text{ grams}} = \text{SAR 0.05 per gram}$$

The 750-gram box is the better buy, if you will use all 750 grams.

After You Buy

There are also things customers must do after they make their purchases.

1. Keep receipts and warranties

For all major purchases, keep receipts and warranties for possible use later. A warranty is a statement guaranteeing the quality and performance of a product or service. Print out and keep warranty statements and sales receipts from online purchases as well.

2. Evaluate your purchase

You will be evaluating the purchase by deciding if you are satisfied with what you have bought. This will help you make better decisions in the future.

3. Be loyal

Shop at businesses that have good reputations and have served you well. Tell others when you have a good experience. Likewise, when you are treated unfairly, share those experiences with others.

LOOKING AHEAD



What products might you be happy to spend more on for quality in the future? Why?

To help structure your answer, consider:

1. How long are you likely to keep the product for?
2. What is the value of the additional quality?

Review Questions

Choose the correct answer.

1. Which of the following is a disadvantage of online comparison shopping?
 - a. quick process
 - b. lots of technical information
 - c. may increase impulse purchasing
 - d. easier than in-store data gathering
2. It is easier to judge the quality of an item by going to a physical location.
 - a. true
 - b. false
3. The best time to shop is when you are very happy.
 - a. true
 - b. false
4. While you shop, it is important to:
 - a. make last-minute purchases at the checkout
 - b. read the labels on items you are planning to buy
 - c. ignore sales terminology
 - d. buy items only because they are on sale
5. It is important to plan your purchases.
 - a. true
 - b. false
6. Which of the following is the best time to shop?
 - a. when you are frustrated
 - b. when you have completed lots of research
 - c. when you are feeling hungry or emotional
 - d. when you are sad



Link to digital lesson



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2.4 What Is a Buying Plan?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain what it means to be financially responsible
- identify the steps involved in creating a buying plan.

Key Terms

Systematic decision making	Financial irresponsibility
Opportunity cost	Buying plan
Financial responsibility	Criteria
Budget	Spending limit

Systematic decision making

the process of making choices that reflect goals by considering all of the pros and cons along with the costs

Opportunity cost

the value or benefit given up when a choice is made between two or more options

Financial responsibility

being able to meet your financial goals through planned earning, spending, and saving

Budget

a plan to show how much money will be earned and spent within a time period

How to Be a Responsible Shopper

As a consumer, you should shop responsibly to ensure your financial security and freedom. Responsible shopping requires **systematic decision making**. This requires you to be financially responsible by understanding your budget, your shopping aims, and the **opportunity cost** of your choices.

Financial Responsibility

It is important to have **financial responsibility** when you are in charge of your own **budget**. People who are financially responsible are able to live a comfortable lifestyle, provide for their own wants and needs, and save money for known and unknown future events.

Being financially responsible means you:

- buy goods and services in a responsible manner
- understand the difference between wants and needs
- do not have to borrow money every time something unexpected happens, and if you do have to, you are able to repay it in a timely manner.

When you are financially responsible, you can make payments as agreed and honor your commitments. Your life is structured, you are not dependent on others, and you have learned how to manage your resources effectively.

Financial Irresponsibility

When people fail to take responsibility for their spending, they are unable to sustain their own lifestyle. This is known as **financial irresponsibility**.

Financial irresponsibility symptoms include the following:

- Bills are not paid in a timely manner.
- There is inadequate food, clothing, and shelter to live a comfortable lifestyle.
- Money is spent on luxury items while basic needs are not being met.
- A month's worth of pay checks do not last the entire month.
- Borrowed money is not repaid in a timely manner or at all.

When individuals are unable to meet their needs, there can be high and often unpredictable costs. If help is not gained to become financially responsible, the costs can become overwhelming.

Costs of financial irresponsibility can include an unhealthy lifestyle and poor health, a lack of recreation and fun, and stress.

This happens to people in all income groups. Making good choices begins with using systematic decision making, which can be used to set up a **buying plan**.

What Is a Buying Plan?

A buying plan will help you maximize limited resources. It may also help prevent buyer's remorse. When you make a major purchase or spend a large sum of money, a buying plan can aid in the decision-making process. A buying plan is a more detailed extension of a budget.

Financial irresponsibility

failing to live up to your financial obligations to meet your goals and needs

Buying plan

an organized method for making good buying decisions



Creating a Buying Plan

A buying plan, as shown in Figure 2.4.1, is a five-step process that outlines what it is that you are hoping to achieve. By clearly defining the steps, you will be able to choose wisely.

FIGURE 2.4.1
A Buying Plan

1.	Spending goal	Define your need, want, or spending goal.
2.	Item	List the item(s) that will satisfy your goal.
3.	Criteria	Describe the features or items that represent an ideal choice.
4.	Timeline	Identify when your goal should be met.
5.	Spending limit	Set an upper limit on how much you can or are willing to spend.

Step 1: Define Your Spending Goal

Any item you buy should be selected to satisfy your wants and needs. By evaluating your wants and needs before you shop, you will be better prepared to make good buying decisions.

You should also consider how the item relates to meeting the goals you have set in your budget or financial plan. Understand that because your resources will likely be limited, you may have to forego buying other items to make your purchase.

Thus, you should consider the opportunity cost, or the value of what you give up, when you make a choice.

Step 2: Choose the Item to Buy

Once you have defined your spending goal, you can then choose the item that will meet your goals. The process may include making decisions on:

- new or used
- high-, medium-, or low-quality
- high-, medium-, or low-cost choices.

If you only need the item for a short period of time, you may also consider renting the item instead of buying it.

Step 3: Define Criteria

Once you have decided to buy a good or service, you should set **criteria** for the item. For an item you want to purchase, the criteria could be the desired:

- features
- functions
- quality
- cost.

Criteria

standards or rules by which something can be judged

Step 4: Set a Timeline

For each item you want to buy, decide how soon you want to make the purchase. The timeline sets the time frame for making your decision. Time frames may depend on:

- a specific activity, such as buying new clothing for graduation
- the actions of others, such as waiting until a store places the item on sale.

Putting a time frame on each planned purchase will help you prioritize. By waiting a day or more, you may decide not to make an impulse purchase.



► List the criteria that you would consider acceptable before you shop for a computer.

Spending limit

the maximum amount you are willing to pay for an item

Step 5: Set a Spending Limit

Based on the need or want that is being met, how much money are you willing and able to spend? By setting a **spending limit**, you will not be tempted to spend more than you have planned. Figure 2.4.2 shows an example of a completed buying plan for a tablet and pen tablet.

FIGURE 2.4.2
A Buying Plan for a Tablet and Pen Tablet

1.	Spending goal	To be able to practice digital drawing easily at home or on the move
2.	Item	Tablet and pen tablet (new or used)
3.	Criteria	Tablet should be small and easy to carry. Pen tablet should have a good battery life (at least 8 hours from fully charged).
4.	Timeline	1 year or sooner
5.	Spending limit	SAR 1,500

Implementing a Buying Plan

When you know what type of item or service you need to buy and how much you are willing to spend, you can start to gather specific information. You will want to know what products and services are available, along with their features and prices.

You may find that you need to revise your buying plan. For example, you may learn that a product with the specific features you want is not available within your spending limit. When this happens, you must change either the criteria or the spending limit.

Payment Methods

Each purchase involves two choices – what to buy and how you will pay for it. Sometimes your only payment option is cash. At other times, you can choose among payment methods. You may be able to write a check or pay with a Mada or credit card.

Each payment method offers benefits:

- Cash can help prevent overspending.
- Credit cards provide protection if you have a problem with the item purchased and want to dispute the charge.
- Loans may be necessary for large purchases such as cars and can be spread over a number of years to make the purchase possible.

LOOKING AHEAD



How can you develop your ability to be financially responsible when making buying decisions?

Making the Purchase

Once you have gathered all of your information and decided on the product or service that will best meet your needs, it is time to buy.

When making a purchase:

- check the item carefully to be sure it is in good condition
- if the item is in a box, the box should be sealed – if the box has been resealed, take the item out and examine it to make sure it is not damaged or ask for a sealed box
- be sure to keep the receipt as proof for the guarantee
- know the time period within which a product can be exchanged or returned if you find something wrong with it
- check for delivery costs – you might be able to save money by picking up a product yourself.

Evaluating the Purchase

Once you buy the product or service and try it out, you should reflect on your purchase. You may find that you feel differently about it after the excitement of buying is gone.



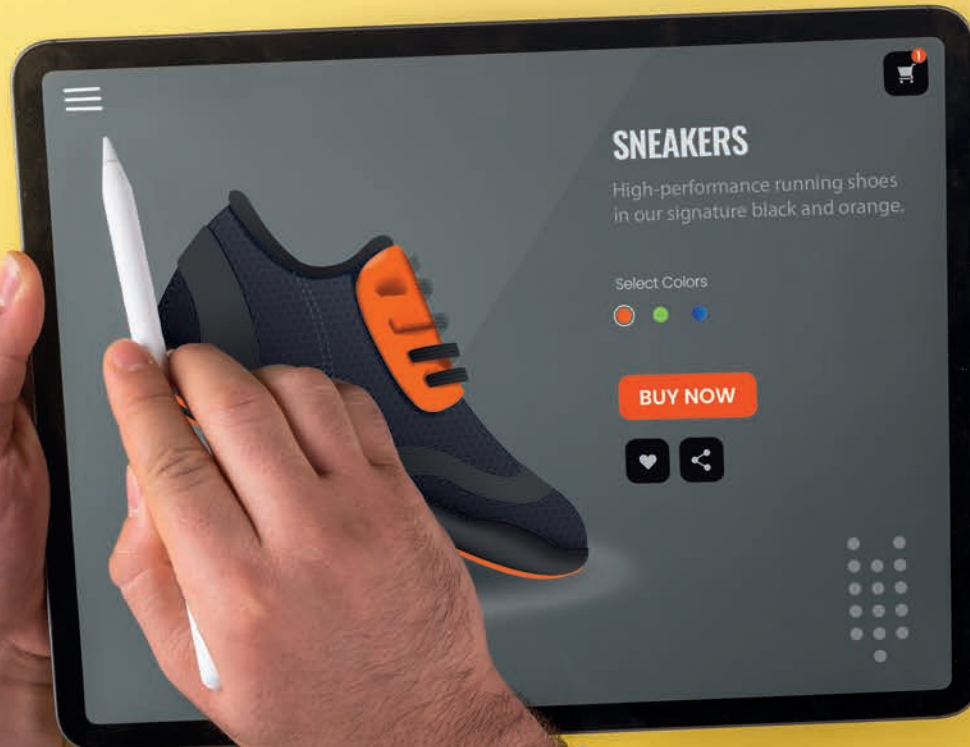
After making a purchase, ask yourself the following questions:

- How satisfied am I with the purchase?
- Did I follow my buying plan?
- Did I get good value for the money I spent?
- Does the product or service meet the want or need for which I purchased it?
- Are there ways I could have done a better job in selecting or buying?
- If I had to do it over again, would I still purchase the item?

Answering these questions will allow you to learn from your buying experience so that you can continue to make good buying decisions.

Remember, sometimes the right decision is not buying!

► What was the last purchase you made online? Were you satisfied with it?



Review Questions

Choose the correct answer.

- Which of the following is a benefit of a buying plan?
 - creates buyer's remorse
 - maximizes limited resources
 - promotes impulse spending
 - helps choose products poorly
- An item should be selected to satisfy wants and needs.
 - true
 - false
- It is a good idea to define criteria for your purchase.
 - true
 - false
- Which option is NOT related to evaluating a purchase?
 - whether you went shopping alone or with friends
 - how satisfied you are with the purchase
 - whether the purchase was good value for money
 - whether the purchase matches your needs or wants
- Which of the following is NOT usually a goal of a financially responsible person?
 - living a comfortable lifestyle
 - providing their own wants and needs
 - losing all of their financial assets
 - saving money for unknown future events
- An opportunity cost is the option or benefit given up.
 - true
 - false



Chapter 2 Assessment

SUMMARY

- 2.1**
- Needs are things required for survival, such as food, water, clothing, shelter, and medical care. Wants are the things we desire for reasons beyond survival and basic comfort.
 - Limited financial resources limit our ability to satisfy all needs and wants, which are unlimited and grow with time.
- 2.2**
- Buying strategies can be rational, emotional, and impulsive.
 - Rational buying strategies include economizing and optimizing. When used wisely, these strategies help keep prices low.
 - Emotional and impulse buying, as well as optimizing, can contribute to overspending.
- 2.3**
- To maximize their purchasing power, consumers should use buying strategies before, during, and after shopping.
 - Comparison shopping helps to determine product prices, features, and special offers.
 - Buying should be reviewed to help develop future buying strategies.
- 2.4**
- Being a responsible shopper requires financial responsibility, which involves planning your earning, spending, and saving to meet financial goals. Financial irresponsibility will result in the inability to sustain your lifestyle.
 - Designing a buying plan involves defining your spending goal, choosing the item to buy, defining criteria, setting a timeline, and setting a spending limit.
 - Implementing a buying plan involves comparison shopping, choosing among payment methods, making the purchase, and evaluating the purchase so you can make better choices in the future.

KEY TERMS

For each lesson, match the terms listed with their definitions. Write the letters of the correct definitions.

Lesson 2.1

Term	Your choice	Definition
1 Disposable income		a refers to what people desire for reasons beyond survival and basic needs
2 Financial resources		b the income available to spend after basic needs have been paid for
3 Needs		c money or other items of value that are used to acquire goods and services
4 Wants		d things you must have for survival

Lesson 2.2

Term	Your choice	Definition
1 Economizing		a purchasing something as a result of a sudden decision, without any plans to do so beforehand
2 Emotional buying		b production and prices are determined by competition between privately owned businesses
3 Impulse buying		c the amount of money a product is worth, or its usefulness
4 Market economy		d the process of selecting goods and services based on needs, wants, and logical choices
5 Optimizing		e spending more than the allocated amount
6 Overspending		f the process of purchasing products based on desire rather than logic
7 Rational buying		g saving as much as possible and spending money only when necessary
8 Value		h getting the highest value for the money spent

Lesson 2.3

Term	Your choice	Definition
1 Bankrupt		a a person who buys goods for personal use
2 Comparison shopping		b a person or organization declared by law as unable to pay their debts
3 Consumer		c the cost of an individual item when sold as a multipack
4 Unit price		d checking prices, brands, and quality among several sellers to make sure you are getting the best deal



Lesson 2.4

Term	Your choice	Definition
1 Budget		a the process of making choices that reflect goals by considering all of the pros and cons along with the costs
2 Buying plan		b failing to live up to your financial obligations to meet your goals and needs
3 Criteria		c the maximum amount you are willing to pay for an item
4 Financial irresponsibility		d the value or benefit given up when a choice is made between two or more options
5 Financial responsibility		e standards or rules by which something can be judged
6 Opportunity cost		f a plan to show how much money will be earned and spent within a time period
7 Spending limit		g being able to meet your financial goals through planned earning, spending, and saving
8 Systematic decision making		h an organized method for making good buying decisions

PROBLEMS

1. How are wants different from needs? What are some wants that you have?

2. How do financial resources limit a person's spending choices?

3. What is disposable income? How does it affect your spending?

4. What is meant by rational buying?

5. Explain why emotional and impulse buying often lead to buyer's remorse.

6. What is economizing? How does this buying strategy affect consumer demand and prices in a market economy?

7. List things you can do while shopping to make better purchase decisions.



8. Explain the importance of keeping receipts after you buy a product.

9. Discuss things you can do after a purchase to help ensure a better shopping experience now and in the future.

10. How is systematic decision making related to being financially responsible?

11. What does it mean to say that a person is financially responsible?

12. What are the advantages of using a buying plan?

EXERCISES

Choose the correct answer.

- Which of the following is an example of a “want”?
 - water
 - food
 - vacation
 - shelter
- Disposable income is income that is used for things you need.
 - true
 - false
- People with limited financial resources have lots of choices.
 - true
 - false
- A market economy plays a vital role in setting prices.
 - true
 - false
- Which of the following is an accurate description of a motive for emotional buying?
 - pride
 - durability
 - economy
 - quantity
- Optimization occurs when:
 - consumers purchase in small quantities
 - products are bought when on sale
 - products are used immediately
 - low-quality products are purchased
- Comparison shopping helps make the most of the shopping experience.
 - true
 - false



8. When planning your purchase, you must:
 - a. have no idea of what you want
 - b. have no budget
 - c. think about how to pay for the item
 - d. forget your shopping list.

9. Clearance sales are when goods are offered at a reduced price for a short period of time.
 - a. true
 - b. false

10. Which of the following is NOT an important step when creating a buying plan?
 - a. define the spending goal
 - b. choose the item to buy
 - c. have no timeline
 - d. define the criteria

11. A spending limit sets the minimum amount you are willing to pay for an item.
 - a. true
 - b. false

12. Which of the following is NOT correct? When making a purchase you should:
 - a. check the condition of the item
 - b. make sure to keep the receipt for the guarantee
 - c. not find out about exchange or return policies
 - d. check delivery costs

MINI CASE

Yasser's Vehicle Leasing Business

Yasser has expanded his vehicle leasing business into Riyadh and Abdullah, the new manager in Riyadh, has five businesses interested in using Yasser's service. Abdullah now needs to decide which vehicles will be available to be leased to customers.

Yasser has asked Abdullah to create a buying plan, recommending which vehicles will be suitable for business customers in Riyadh.

1. Should Abdullah choose cars that meet customer needs or wants? Explain your reason.

2. Abdullah needs to create a buying strategy. Explain whether he should use an economizing or optimizing rational buying strategy.

Abdullah has decided what buying strategy he is going to use. He now needs to select cars that will be appropriate for his customers in Riyadh. Abdullah has decided to do a comparison shop of other local vehicle leasing businesses.

3. What factors will be important to consider when doing the comparison shop?



3 Saving



Why do people save money?



LESSONS

- 3.1 What Is Inflation?
- 3.2 What Is Budgeting?
- 3.3 What Are Record-keeping Methods?
- 3.4 What Is Financial Planning?

When you begin to become financially independent and earn your own income, it is important to save money as well as understand how to spend it responsibly. Saving money means putting it aside in a safe place, often in order to make a large purchase or investment later. In this chapter, you will look at how to budget and make financial plans to ensure that you can afford larger future purchases. You will also begin to understand how inflation affects the value and purchasing power of your money.



Link to digital lesson



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3.1 What Is Inflation?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain what inflation is and how it is measured
- describe how inflation affects purchasing power.

Key Terms

Inflation

Consumer Price Index (CPI)

Retail price

Basket of goods and services

Purchasing power

Time value of money

Inflation

In 2000, the average price of a house in Saudi Arabia was SAR 600,000 and a new car was SAR 60,000 to 100,000. Today, the price you will pay for these items is much higher. It is not only expensive items which cost more – everything else does as well. This is due to **inflation**. Inflation reflects how much prices rise over time.

Inflation

an increase in the general level of prices for goods and services



► How much did a burger cost in 2000? How much does it cost today?

Measuring Inflation

Inflation is measured by the General Authority for Statistics in Saudi Arabia. Inflation is measured using a tool called the **Consumer Price Index (CPI)**. The General Authority measure the percentage change in the **retail price** of a **basket of goods and services**. The Saudi Arabian basket of goods and services usually includes:

- food and beverages
- housing and utilities
- transport
- furnishing and household goods
- clothing, footwear, and communication.

The CPI compares the prices of the goods and services in the market basket to see how they have changed from year to year. For example, if the price of an item was SAR 1.00 in the previous year and it is now SAR 1.12, that is a 12% increase in the price:

$$\frac{\text{SAR } 1.12 - \text{SAR } 1.00}{\text{SAR } 1.00}$$

Figure 3.1.1 below shows the inflation rates measured by the CPI since 2000.



FIGURE 3.1.1

Saudi Arabian Inflation Rate 2000 to 2021 (Source: Macro-trends)

► Would it have been better for someone to buy their first house in 2019 or 2020? Why?

Consumer Price Index (CPI)

measures the average change in prices paid by consumers over a period of time for a basket of goods and services

Retail price

the price that customers pay for goods in stores

Basket of goods and services

represents a typical family's spending and is used to measure CPI



Purchasing power

the value of money, measured by the amount of goods and services it can buy

Inflation Versus Purchasing Power

The **purchasing power** of your Riyal changes over time. The value of a Riyal does not remain the same when there is inflation. As inflation rises, the true purchasing power of each Riyal falls.

Because purchasing power falls over time as inflation rises, the wages and salaries that workers earn will buy less as prices rise. That means you must earn more every year to maintain the same standard of living.

While employers can increase your pay every year, it does not actually mean your standard of living will change:

- If your pay rise is equal to the inflation rate, then your standard of living does not change.
- If your pay rise is higher than the inflation rate, then your standard of living may increase.
- If your pay rise is lower than the inflation rate, then your standard of living will decrease.

Time value of money

a concept that says a Riyal you receive in the future will be worth less than a Riyal you receive in the present (today)

During times of inflation, you must also consider how the **time value of money** affects purchasing power. The concept assumes that prices are rising.

For example, suppose you loan a friend SAR 20 today and your friend promises to pay back the SAR 20 one year from today:

- The money you receive in one year will not have the same value as today.
- Prices will be higher due to inflation.
- SAR 20 will not buy as many goods and services.

Inflation Versus Gross Domestic Product

A common method used to measure a country's economic performance is the **gross domestic product (GDP)**. This is a key term we discussed in Chapter 1. GDP includes the production of new goods and services that consumers purchase within the country, such as cars, smartphones, clothing, and haircuts, as well as government spending

▶ What are the main exports of Saudi Arabia?

on infrastructure projects and basic services such as roads and highways, police, and defense and military equipment.

Products produced in Saudi Arabia that are exported to other countries are also included in the GDP. The largest percentage of GDP is from exports of crude petroleum.

Comparing the GDP over several years is a good indicator of whether the economy is strong or weak. When the GDP is growing, the country is producing more goods and services. This generally results in:

- more jobs
- more income for consumers to spend
- a higher standard of living.

The opposite is true when the GDP is falling.

When evaluating the GDP, inflation is a factor. If prices are going up,



an increase in GDP could be the result of inflation rather than higher production levels. For example, if GDP increased by 4% last year, but prices in general increased by 2%, then only about 2% more goods and services were produced. This is GDP adjusted for inflation.

LOOKING AHEAD



What type of industry do you want to work in when you are older? Is this industry highlighted in Vision 2030?

Review Questions

Choose the correct answer.

1. Inflation increases the cost of a product over time.
 - a. true
 - b. false
2. Which of the following is NOT found in the CPI basket of goods?
 - a. food and beverage
 - b. transport
 - c. crude petroleum
 - d. housing and utilities
3. Which of the following has no impact on GDP?
 - a. consumer purchases
 - b. exported goods
 - c. imported goods
 - d. government spending on infrastructure
4. When GDP is falling, the country is producing more goods and services.
 - a. true
 - b. false
5. Which of the following is incorrect?
 - a. The purchasing power of a Riyal does not change over time.
 - b. Inflation changes the value of a Riyal.
 - c. Purchasing power measures the amount of services a Riyal can buy.
 - d. As inflation rises, the purchasing power of a Riyal falls.

3.2 What Is Budgeting?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify the purpose of a personal budget
- explain how to prepare a personal budget.

Key Terms

Income	Mortgage
Fixed expenses	Charitable giving
Variable expenses	Variances

Budgeting

Budgeting is a critical part of managing your money. The purpose of a budget is to plan how you will spend and/or save money. A budget is used to record:

- income (cash inflows)
- expenses (cash outflows).

A budget lists estimated income and expenses to help you create a financial plan.

A budget should be designed to help meet financial goals, such as:

- paying for current expenses, such as household bills, memberships, and subscriptions
- planning medium term purchases, such as a new washing machine or car
- saving for the future, such as a house or a pension.

Link to digital lesson



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► What regular bills does a household need to budget for?

To create a budget:

**STEP
1**



Begin by looking at the amount you have available to spend or save.

**STEP
2**



Then decide how much of that amount you will save and how much you will spend.

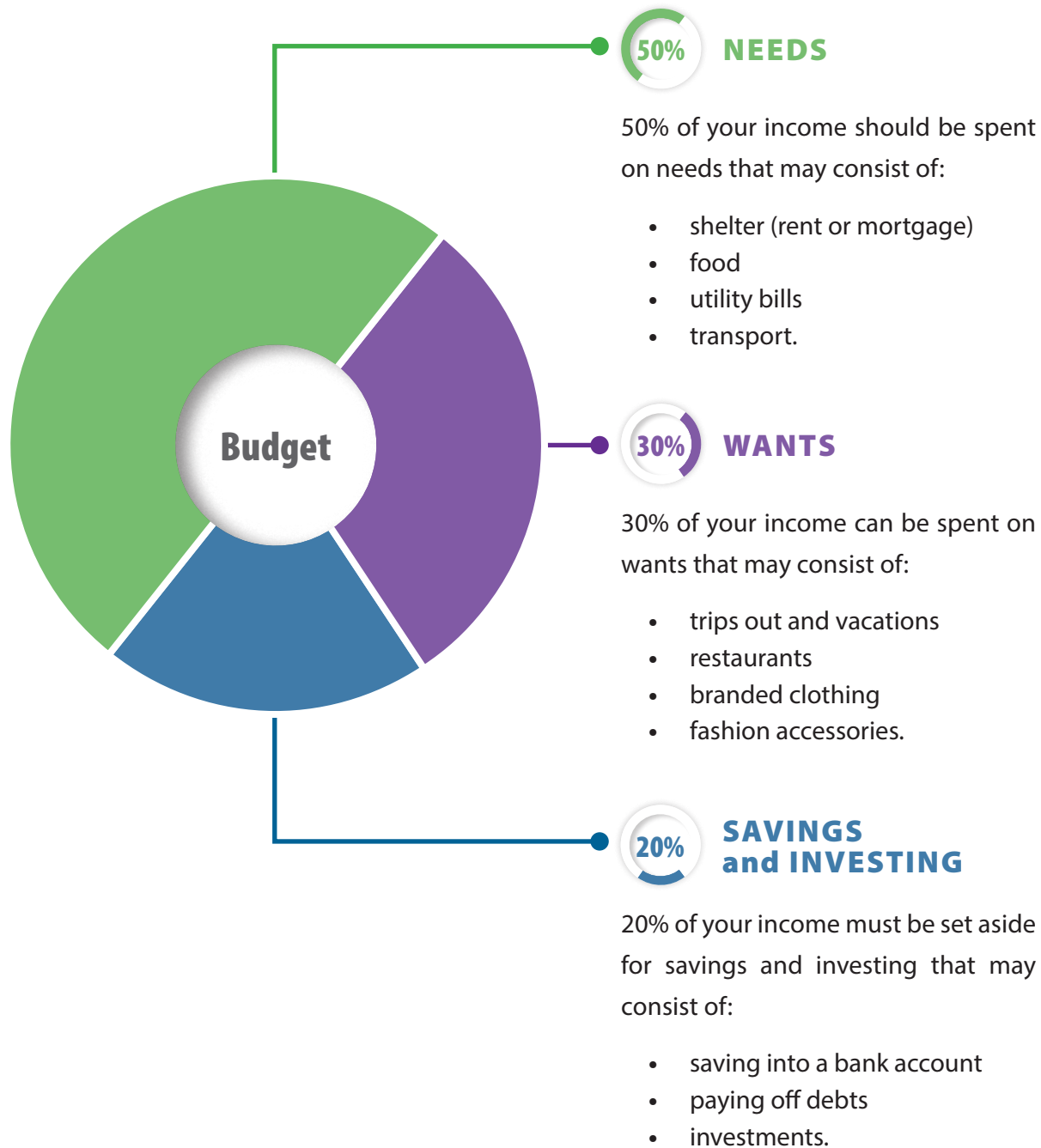
**STEP
3**



You must then choose the items or services for which you plan to spend.

Remember that a budget is a plan. Your actual income, savings, and spending may not be exactly as planned. You can compare your actual spending and savings to the budget to see how well you planned. This process will help you create better budgets in the future.

A budget should ideally use a ratio of 50-30-20 to split your income. This means that you should budget:



Preparing a Budget

To prepare a personal budget, there are four simple steps. Figure 3.2.1 shows a sample budget. Look at each part of the budget as you read the steps for preparing a budget in the following sections.

FIGURE 3.2.1
Personal Budget

Income	Weekly (SAR)	Monthly (SAR)	Yearly (SAR)
Allowance	100	400	4,800
Lunch money allowance	25	100	1,200
Other	50	200	2,400
Total Income	175	700	8,400
Savings			
Deposit to savings account	20	80	960
Total Savings	20	80	960
Expenses			
Clothes and shoes	35	140	1,680
Lunches	25	100	1,200
Mobile phone bill	25	100	1,200
Entertainment	70	280	3,360
Total Expenses	155	620	7,440
Total Savings and Expenses	175	700	8,400

Income

the money that a person or company earns or receives

Step 1: Estimate Income

You may have many different sources of **income**. Whether the money is earned or unearned, you should keep track of where it comes from and how often it is received.

Because most budgets are prepared once a year, you should calculate income for an entire year. Locate the total estimated yearly income amount, SAR 8,400, in the budget in Figure 3.2.1. You may receive income:

- weekly: could be lunch money allowance
- monthly: could be allowance
- yearly: could be Eid gifts.

No matter when the income is received, it can be accounted for in terms of a monthly or yearly budget. If you receive income weekly, multiply the weekly amount by 4 to calculate how much that is per month. For example, SAR 10 received per week would be SAR 40 a month (rounding is okay as long as your total yearly amount is accurate). If you receive income once a month, you can multiply it by 12 to get your yearly income.

When you look at the big picture – how much money comes in and goes out during an entire year – it may change the way you think about money. Make a copy of the budget outline in Figure 3.2.1 in your notebook or on a computer spreadsheet and enter your estimated income for the following year.

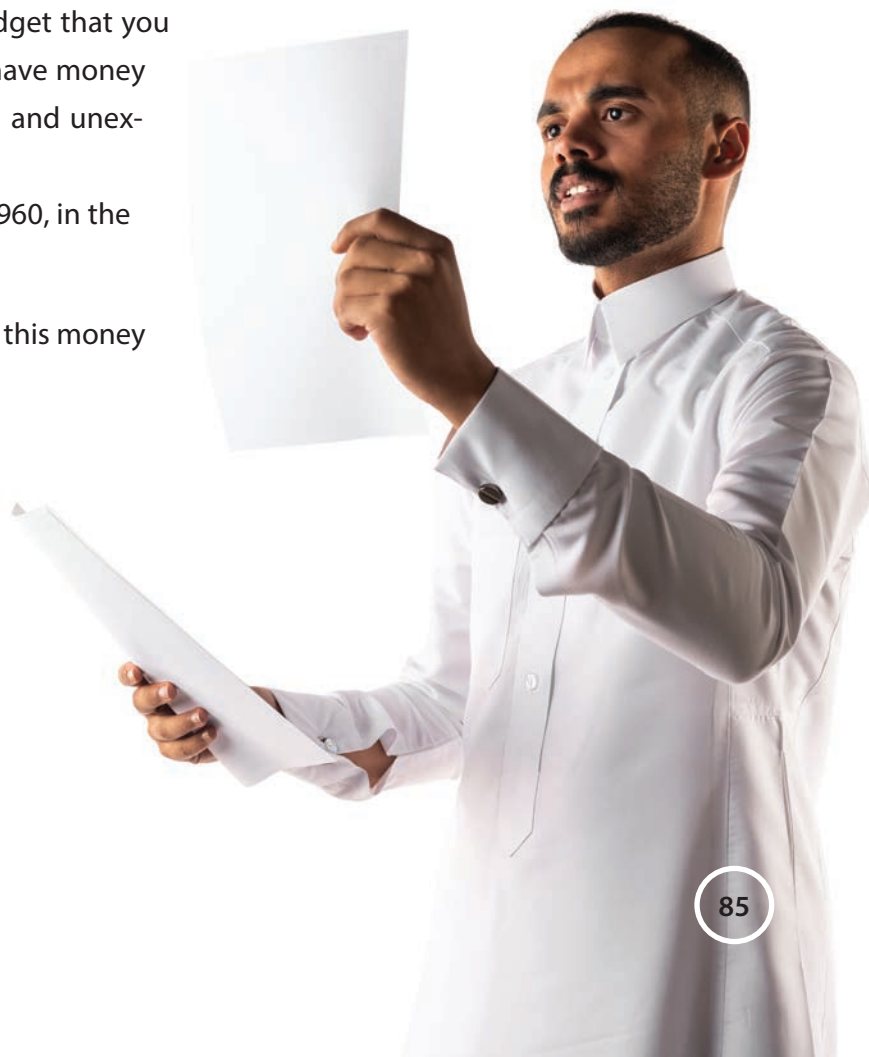
Step 2: Plan Savings

Put your money into savings before you consider other expenses. If you plan what you want to spend first, you may have no money left for savings. Enter an amount into your budget that you would like to save. By saving, you will have money to pay for future needs, both expected and unexpected.

Find the yearly savings amount, SAR 960, in the budget in Figure 3.2.1.

- What might you be able to spend this money on at the end of the year?
- Would you continue saving for a larger purchase?
- Is this enough to save each year, or would you want to increase your weekly/monthly savings?

► Why might your spending not be exactly as planned?



Step 3: Estimate Expenses

Expenses are items for which you spend money. Expenses can include:

- clothes
- lunches at school
- subscriptions.

You may also make payments on an asset you purchase, such as a car. Other expenses are related to living costs and entertainment. Keeping track of what you spend will help you estimate expenses for the future. If you are trying to control expenses, seeing exactly how much you are currently spending for each expense can be helpful. Find the expenses amounts in the budget in Figure 3.2.1.

- Are these realistic figures for you?
- Are there any others you could include?

Fill in your own budget and add in any other expenses you may have.

Expenses

There are two types of expenses: **fixed** and **variable expenses**.

Regular fixed expenses can include:

- rent or **mortgage** for your family living accommodation
 - Renters typically have a lease contract stating an annual rent amount that does not change for the term of the lease.
 - Homeowners with a mortgage typically have a contract stating a monthly payment to the lender who owns the property until the final payment is made. If payments are missed, the homeowner can be told to leave the property and may lose all the money paid so far.
- insurance for your family house and car
 - This can often be paid monthly or annually.
 - You cannot legally drive a car in Saudi Arabia without car insurance.
- car payments if bought using money borrowed from a lender.
 - Monthly car payments are usually fixed for the term of the loan.
 - The loan may or may not be secured against the vehicle.

Fixed expenses remain constant each month and must be paid even

Fixed expenses

costs that do not change each month

Variable expenses

costs that can go up and down each month

Mortgage

an agreement to borrow money with your house as security for the borrowed money

when income is less than expected. If income continues to be less than planned, a fixed expense may have to be eliminated.

For example, if your income goes down because you lose your allowance, you may have to sell your smart phone to eliminate the payments you can no longer afford.

Variable expenses change depending on a number of factors as described below.

Examples of variable expenses are:

- gas and electricity bills: When the weather is very hot, the cost of cooling your house will go up as you use more energy.
- gasoline prices: Expenses can also vary due to changing prices; for example, as the price of gasoline rises, your transportation expenses will also rise.
- food, clothing, and entertainment: If you have less income or higher expenses than expected one month, you may need to alter your variable expenses; you may choose to spend less on entertainment.

Zakat is a form of **charitable giving** which is one of the five pillars of Islam. Eligible Muslims pay Zakat of 2.5% once a year and this is part of a person's monthly expenses.

Charitable giving

the act of donating money to a cause in which you believe

Step 4: Balance the Budget

Find the total of savings and expenses in Figure 3.2.1. This amount should be the same as your total income amount. When these amounts are the same, the budget is in balance.

If your savings plus your expenses exceed your income, adjust your budget to make them balance. To do this, you will have to lower your expenses, save a little less, or increase your income.

If your savings plus your expenses are less than your income, you should again adjust your budget to make them balance. However,



▶ Explain whether you would rather reduce spending on lunches or on entertainment.

in this case, you can increase your expenses or save a little more depending on what your priorities are.

Preparing a Budget Analysis

Variations

the differences between planned amounts and actual amounts

You should not expect income, savings, and expenses to be exactly as you planned in a budget. Looking at the **variances** in your income and spending amounts can help you plan better when creating budgets in the future.

Budget variances can be favorable or unfavorable.

- A **favorable variance** occurs when you earn or save more than you estimated or spend less than you planned.
- An **unfavorable variance** occurs when you earn or save less than you estimated or spend more than you planned.

Figure 3.2.2 shows budget variances – both in SAR amounts and in percentages.

To calculate the variances in Figure 3.2.2, complete the following calculation:

$$\begin{array}{l} \text{Percentage variance} \\ \text{for income, savings} \\ \text{and expenses} \end{array} = \frac{(\text{Actual} - \text{Budgeted amount})}{\text{Budgeted amount}} \times 100$$

The percentage variance calculates the variances for the individual rows. Therefore, the Total Income percentage variance (7%) is calculating the difference between the actual (SAR 750) and budgeted (SAR 700) total figures. It is not calculated by using the previous allowance (+25%) and other (–25%) variances, as these would cancel each other out.

When the variance is calculated, it will either be a negative figure or a positive figure. It is important to understand the variance being calculated.

If the income and savings variance is calculated and they are positive figures, this means that more income and more savings are being generated. This is a favorable response as more income and savings is better. If the income and savings variance is negative, this is unfavorable as less income and savings is worse.

However, if the expenses figure is calculated and the result is a positive figure, this is an unfavorable variance as the expenses have increased, which reduces the amount of money you have available. A negative variance in the expenses is therefore favorable as your outgoings have reduced.

Income	Budgeted Amount	Actual Amount	SAR Variance	Percentage Variance
Allowance	SAR 400	SAR 500	+ SAR 100	+ 25% (F)*
Lunch money allowance	100	100	0	0%
Other	200	150	– SAR 50	– 25% (U)**
Total Income	700	750	+ SAR 50	+ 7% (F)
Savings				
Deposit to savings account	80	130	+ SAR 50	+ 63% (F)
Total Savings	80	130	+ SAR 50	+ 63% (F)
Expenses				
Clothes and shoes	140	126	– SAR 14	– 10% (F)
Lunches	100	100	0	0%
Mobile phone bill	100	100	0	0%
Entertainment	280	294	+ SAR 14	+ 5% (U)
Total Expenses	620	620	0	0%
Total Savings and Expenses	700	750	+ SAR 50	+ 7% (F)
* (F): Favorable variance ** (U): Unfavorable variance				

FIGURE 3.2.2
Personal Budget Variances
for a Month

LOOKING AHEAD



How would a budget help you to be more financially responsible?



Review Questions

Choose the correct answer.

1. Which of the following is NOT relevant when planning a budget?
 - a. listing estimated income
 - b. listing estimated expenditure
 - c. creating a financial plan
 - d. recording actual figures
2. A financial plan guarantees you cannot overspend.
 - a. true
 - b. false
3. Which of the following is NOT an example of a variable expense?
 - a. rent
 - b. electricity bills
 - c. food
 - d. entertainment
4. If your savings plus your expenses exceed your income, you can spend more money on variable expenses.
 - a. true
 - b. false
5. Which of the following approaches should NOT be used when creating a budget?
 - a. Decide what luxury item you want.
 - b. Look at the amount available to spend or save.
 - c. Decide what percentage will be saved.
 - d. Choose the item you can afford.

3.3 What Are Record-keeping Methods?

Learning Objective

Once you have completed this lesson, you should be able to:

- describe the advantages of electronic versus manual record-keeping methods.

Key Terms

Manual records

Spreadsheet software

Electronic records

Link to digital lesson



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Record-keeping Methods

Keeping good records will help you prepare a better budget. You can manually keep track of what you are earning, spending, saving, and investing by using pen and paper. Or you may find using an electronic record-keeping program to be more convenient.

Manual records

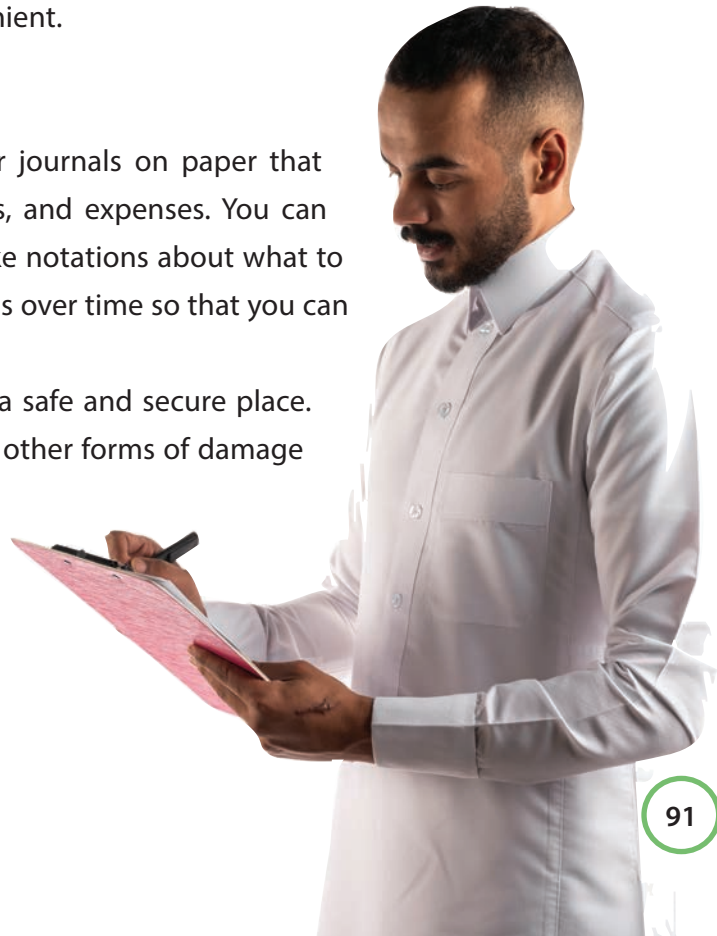
information recorded in hard-copy format using pen and paper

Manual Records

You can keep **manual records** as logs or journals on paper that list types and amounts of income, savings, and expenses. You can manually compute your variances and make notations about what to change. You will want to keep these journals over time so that you can compare them from year to year.

It is important to keep these records in a safe and secure place. This will protect them from fire, liquid, and other forms of damage and even misuse by others.

▶ Do you keep good records? Why?



However, there are some disadvantages of using manual records:

- They need lots of space due to filing cabinets.
- It is hard to make changes neatly.
- It can be difficult to locate specific items, figures, or data.

Electronic Records

Many people prefer to keep **electronic records** on electronic devices. The advantages of using computerized systems include:

- the ease by which information can be updated, stored, and retrieved
- the speed by which new computations and comparisons can be made.

Microsoft Excel® is an example of an available software package specially designed for financial planning and record-keeping. It can be used for data entry and budget analysis. **Spreadsheet software** allows you to manipulate data entry and will calculate the results if the required formulas are already entered.

You may need to adjust amounts in a budget several times. This can become quite tedious if done by pen and paper.

For example, what if your monthly expenses go up by 8%? How will the budget be affected? What if the price of a car you are saving to buy goes up by 10% during the time you are saving for it? How much money will you need for the car?

Allowing you to answer “what if” questions easily is one of the strengths of a spreadsheet program. When you change a number in Excel that is part of a calculation, all other amounts affected are updated automatically.

Because amounts are calculated using formulas, math errors are eliminated (assuming you initially entered the formulas correctly). Excel also allows you to set up worksheets and link them together.

Electronic records

soft-copy formats of your financial information stored on your computer

Spreadsheet software

computer programs that allow you to insert numbers and formulas to compute amounts, and then easily change them later as needed

A sample budget created in Excel is shown in Figure 3.3.1. Like manual records, electronic records should be protected from unauthorized uses and users. Passwords will help protect your information. It will help to:

- prevent fraud
- keep your personal data private.

Also, as with any important files you keep electronically, always keep a current backup of your financial records. This ensures that if you delete your data accidentally, there is a reserve and up-to-date copy available.

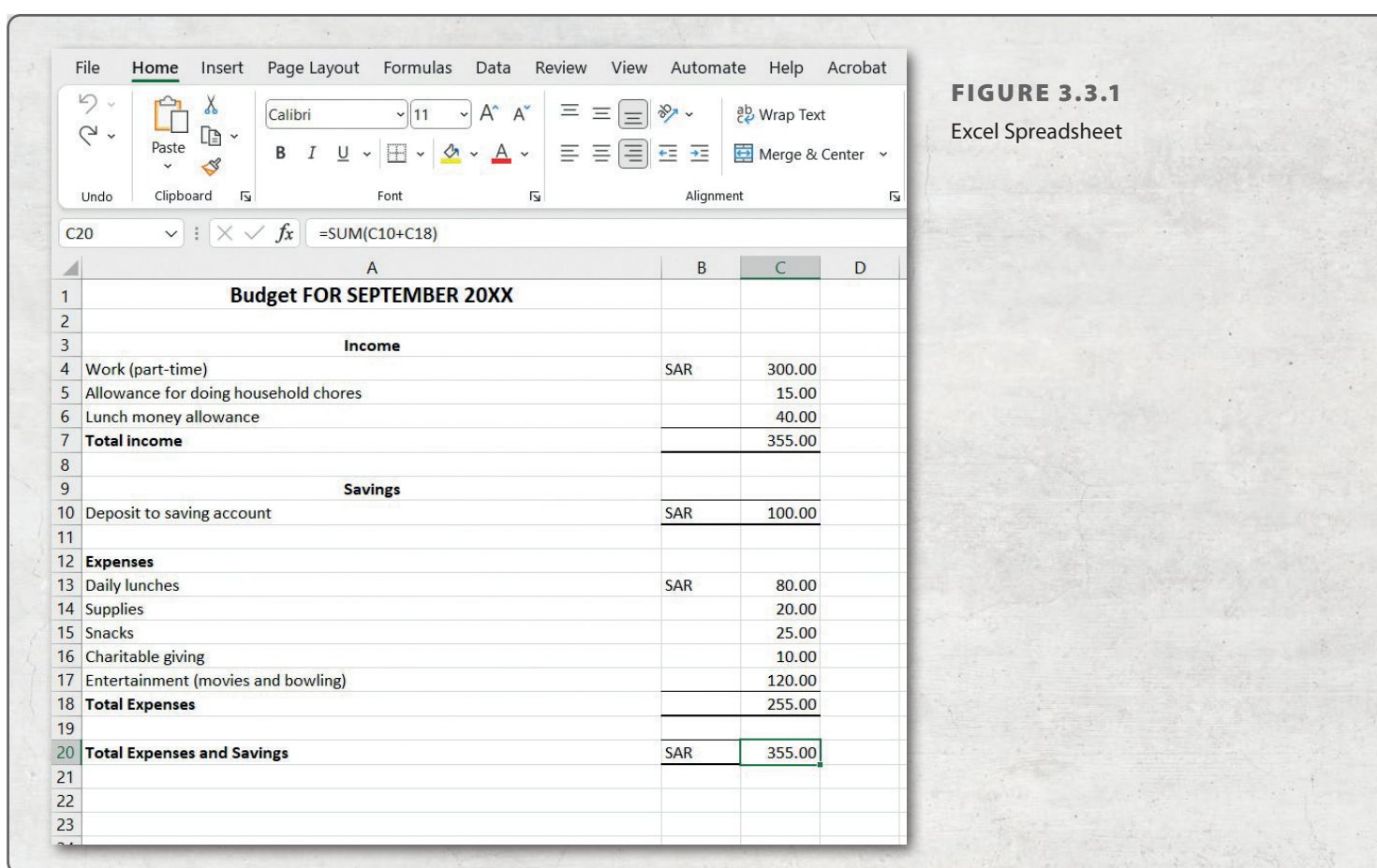


FIGURE 3.3.1
Excel Spreadsheet



Review Questions

Choose the correct answer.

1. It is important to keep records safe and secure to protect them from fire.
 - a. true
 - b. false
2. Which of the following is NOT a disadvantage of using manual records?
 - a. They need lots of space.
 - b. They can be hacked.
 - c. It is hard to make neat changes.
 - d. It is difficult to locate specific data.
3. Which of the following is NOT a correct use of spreadsheet programs?
 - a. data entry
 - b. budget analysis
 - c. manual writing of logs
 - d. calculation of results
4. Passwords will help protect your information safe from fraud.
 - a. true
 - b. false

3.4 What Is Financial Planning?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain the purpose of a financial plan
- identify the steps involved in creating a financial plan.

Key Terms

Financial plan	Intermediate goals
Personal goals	Long-term goals
Financial goals	Pension
Short-term goals	Timeline

Link to digital lesson



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Financial Planning

Financial planning is a formal process that involves carefully examining your current financial situation and thinking about your future. It requires a long-term commitment. As part of the financial planning process, you will create a **financial plan**.

The first element of creating a financial plan is to set your **personal goals**, which could include:

- getting a college education
- owning a car
- owning a home.

For each personal goal, you will have a related **financial goal**.

- For college education, you might need to pay for:
 - living expenses
 - tuition
 - books
 - other related expenses.

Financial plan

a set of personal and financial goals, along with steps and a timeline for reaching them

Personal goals

things you want to achieve in your life

Financial goals

plans for how you will pay for your personal goals



- For owning a car or a home, you would need to:
 - save for a down payment on a car or a house
 - have a job that provides enough income to make monthly payments.

Budgets and financial plans go hand in hand. However, they are not the same. A financial plan is more than a budget. Its purpose is to plan for earning, spending, saving, and investing in a way that will allow you to achieve your goals in the present and the future.

By creating a financial plan, you are assuming personal responsibility for your financial health. Some people create a financial plan by themselves because their finances are not complex enough to require assistance.

Other people get advice from experts who can help manage resources and plan for retirement. Whether you plan by yourself or get advice, you will need to complete the five steps of financial planning.

► What are your personal goals?

Step 1: Gather Information

The first step in financial planning is to gather information. Everything related to your finances should be considered. The purpose of gathering information is to look at the state of your finances now – your starting point. The following list shows examples of financial records or documents that are used to assess your finances. You may not have all the items listed at this time in your life. However, items like these may become part of your plan later in life:

- personal budget
- current bank statements
- investment account statements
- insurance policies
- wills and/or trusts
- financial contracts for items purchased on credit
- any other legal documents related to your finances.

Step 2: Analyze Information

Take a careful look at the documents and information you have gathered.

- Find out if any data is missing and take steps to get the data.
- Review your current sources of income (cash inflows).
- Look at your expenses (cash outflows).
 - Do you have enough income to pay for your expenses and save for the future?
 - If not, try to find ways to increase income and/or decrease expenses.
- Review a current monthly or yearly budget.
 - Analyze your expenditure.
 - Do you earn enough to have a positive lifestyle?
 - Do you need to spend less and save more?

Step 3: Set Goals

Two types of goals should be considered when creating a financial plan: personal goals and financial goals.

- Personal goals should be set first because your financial goals will be based on them. Living in your own apartment, owning a car, and taking a two-week vacation are personal goals.



Short-term goals

things you expect to achieve within one week to one year

- Financial goals may be short-term, intermediate, or long-term and describe how you will pay for your personal goals.

A financial plan with **short-term goals** tells you on a week-to-week or month-to-month basis what you would like to achieve, such as:

- saving SAR 40 by the end of the month
- purchasing a new smart phone or tablet.

Using monthly and yearly budgets can help you set short-term goals which are realistic and achievable, and can be used to motivate you.

Your financial plan may also include targets that are not short-term but need to be planned for in the near future. These **intermediate goals** might be:

- saving money for college
- buying your first car
- paying for your first international vacation
- increasing your yearly income.

These intermediate goals take longer to achieve and also require more planning as it can be difficult to save for something that is not immediate. Short-term and intermediate-term goals are often stepping stones to **long-term goals**.

When you begin working full time, you may begin to think about things that could help you have a better future, such as:

- saving for a private **pension**, in addition to the mandatory public pension so you can have a comfortable old age
- saving money for your children's future, including education
- paying off your mortgage as soon as possible.

Intermediate goals

things you wish to achieve in the next two to five years

Long-term goals

things you want to achieve more than five years from now

Pension

a regular income paid to people over the retirement age

LOOKING AHEAD



What long-term goals do you have?

Achieving long-term goals may require you to save money for a long time. As part of the goal-setting process, you may experience delayed gratification. Doing without an item you would like to buy now in order to save money to fulfil an intermediate or a long-term goal is an example of delayed gratification.

You may have a goal of saving SAR 100 per month to help pay for your college education. This month, you would like to buy a new pair of shoes. However, if you do so, you will not be able to make your savings goal. Doing without the shoes now in order to be able to pay for college later is an example of delayed gratification.

Step 4: Develop a Timeline and Targets

Goals must be measurable which means you must plan a **timeline** for putting your goals into action. A timeline is a visual display of how long it will take to achieve each phase of your plan. Before creating a timeline, be sure your goals are prioritized based on how soon you need or want to achieve them. For each personal goal, there may be a financial goal you must first achieve. Financial goals can further be divided into parts or steps.

For each step, consider:

- how long it will take to complete
- a target date for completion
- targets for your goals.

Targets may consist of steps or specific actions to take. As you hit each target, you will be another step closer to achieving your overall goal. The record showing the goals you intend to accomplish with timelines and targets is your financial plan.

A sample financial plan for one goal is shown in Figure 3.4.1.

Step 5: Implement and Evaluate the Plan

Once you have decided on your personal and financial goals, begin working toward achieving them. Check off the items on your timeline as they are completed. Set new targets if you learn about other ways to meet your goals. Most importantly, look at your financial plan regularly. At least once each year, you should evaluate the financial plan and revise it as needed.

Timeline

a visual display of how long it will take to achieve each phase of a plan



FIGURE 3.4.1
A Financial Plan (One Goal)

FINANCIAL PLAN Updated April 1, 20XX			
Personal Goal	Financial Goal	Targets	Timeline
Have my own car	Buy a car	1. Save money for a down payment (SAR 12,000)	5 years
		• Set aside SAR 200 per month	Once per month
		• Open a separate account for money saved	Schedule for April 15
		2. Get a job that provides enough income to make monthly payments	2 years

In doing so, consider the following questions. Some of them may apply now. Others may not apply to you for a few, or many, years.

- Is your income steadily growing over time? If so, by what amount and percentage?
- How are your spending habits changing? What types of things are you buying (needs versus wants), and what are your purchasing plans over time?
- Who else depends on your income? Do you have a spouse or children that will be affected by your financial plan? What will they contribute? What needs will they have?
- What new goals do you need to add and plan for?
 - Do you need a plan to pay for a college education for your child?
 - Is it time to plan for retirement?

As your personal and family goals change, your financial plan should be updated to reflect new goals.

Review Questions

Choose the correct answer.

1. Financial planning requires a short-term commitment.
 - a. true
 - b. false
2. Which of the following is NOT an example of a personal goal?
 - a. getting a college education
 - b. owning a car
 - c. owning a home
 - d. paying for tuition
3. Which of the following is NOT an intermediate financial goal?
 - a. purchasing a new phone
 - b. saving money for college
 - c. paying for a first international holiday
 - d. increasing annual income
4. A target is a visual display of how long it will take to achieve each phase of a plan.
 - a. true
 - b. false



Chapter 3 Assessment

SUMMARY

- 3.1**
- Inflation is an increase in the general price levels of goods and services and is measured by the Consumer Price Index (CPI). Inflation reduces purchasing power.
 - CPI is a measure of the average change in prices paid by a typical family over a period of time for a basket of goods and services.
 - Inflation affects the purchasing power of money, which falls as inflation rises.
 - Gross domestic product (GDP) is a second measure of economic performance and measures the value of the exports of Saudi Arabia.
- 3.2**
- Budgeting is a critical part of making good financial choices. It allows you to analyze what you are spending and saving and make changes as needed.
 - Budgeting is a four-step process where you estimate income, plan savings, estimate expenses, and balance the budget.
 - A variance is the difference between a planned amount and the actual amount of an income or expense item in your budget. Analyzing your variances will help you plan spending and saving better in the future.
- 3.3**
- Manual and computerized record-keeping methods will help you stay organized and prepare better financial records.
 - Passwords help to protect your information and keep it safe from fraud.
- 3.4**
- Financial planning involves examining your current financial situation and thinking about your future. It also involves creating a financial plan that contains goals, targets, and timelines.
 - Five steps in financial planning are (1) gather information, (2) analyze information, (3) set goals, (4) develop a timeline and targets, and (5) implement and evaluate the plan.

KEY TERMS

For each lesson, match the terms listed with their definitions. Write the letters of the correct definitions.

Lesson 3.1

Term	Your choice	Definition
1 Basket of goods and services		a the price that customers pay for goods in stores
2 Consumer Price Index (CPI)		b an increase in the general level of prices for goods and services
3 Inflation		c the value of money, measured by the amount of goods and services it can buy
4 Purchasing power		d measures the average change in prices paid by consumers over a period of time for a basket of goods and services
5 Retail price		e a concept that says a Riyal you receive in the future will be worth less than a Riyal you receive in the present (today)
6 Time value of money		f represents a typical family's spending and is used to measure CPI

Lesson 3.2

Term	Your choice	Definition
1 Charitable giving		a the money that a person or company earns or receives
2 Fixed expenses		b the act of donating money to a cause in which you believe
3 Income		c an agreement to borrow money with your house as security for the borrowed money
4 Mortgage		d the differences between planned amounts and actual amounts
5 Variable expenses		e costs that can go up and down each month
6 Variances		f costs that do not change each month

Lesson 3.3

Term	Your choice	Definition
1 Electronic records		a computer programs that allow you to insert numbers and formulas to compute amounts, and then easily change them later as needed
2 Manual records		b soft-copy formats of your financial information stored on your computer
3 Spreadsheet software		c information recorded in hard-copy format using pen and paper



Lesson 3.4

Term	Your choice	Definition
1 Financial goals		a things you want to achieve in your life
2 Financial plan		b things you expect to achieve within one week to one year
3 Intermediate goals		c a regular income paid to people over the retirement age
4 Long-term goals		d a set of personal and financial goals, along with steps and a timeline for reaching them
5 Pension		e things you want to achieve more than five years from now
6 Personal goals		f a visual display of how long it will take to achieve each phase of a plan
7 Short-term goals		g plans for how you will pay for your personal goals
8 Timeline		h things you wish to achieve in the next two to five years

PROBLEMS

1. What is inflation?

2. What is purchasing power? How is it affected by inflation?

3. What is gross domestic product? Why is it a good idea to compare it over several years?

4. What is a budget? Why might you update it monthly?

5. Why is the first step (Estimate Income) in preparing a budget so important?

6. What are fixed expenses? How are they different from variable expenses?

7. Why is it important that a budget is balanced?

8. If your budget does not balance, what can you do to bring it into balance?



9. Why is a good record-keeping system important?

10. What is the purpose of a financial plan?

11. Explain one type of information or document that should be gathered as the first step in creating a financial plan.

12. What is the difference between short-term, intermediate, and long-term goals?

EXERCISES

Choose the correct answer.

1. Your standard of living will increase if:
 - a. your pay rise is equal to the inflation rate
 - b. your pay rise is higher than the inflation rate
 - c. your pay rise is lower than the inflation rate
 - d. you do not have a pay rise
2. Inflation decreases the general level of prices for goods and services.
 - a. true
 - b. false
3. When GDP grows, there are generally more jobs available.
 - a. true
 - b. false
4. A budget shows how much money you earned last year.
 - a. true
 - b. false
5. Which of the following is a budget NOT needed for?
 - a. paying current expenses
 - b. paying past expenses
 - c. planned medium-term purchases
 - d. pensions
6. Which of the following is NOT an expense?
 - a. clothes and shoes
 - b. lunches
 - c. mobile phone bill
 - d. allowance
7. Manual records are usually kept on computers.
 - a. true
 - b. false
8. An advantage of electronic records is:



- a.** they can be damaged by fire
 - b.** they use lots of space
 - c.** it is hard to make neat changes
 - d.** the speed at which comparisons can be made

- 9.** Math errors are eliminated due to formulas in spreadsheets.
 - a.** true
 - b.** false

- 10.** Which of the following is a potential financial goal?
 - a.** to get into debt
 - b.** to have no income
 - c.** to save for a car
 - d.** to spend all your money

- 11.** Personal goals are how you will pay for your financial goals.
 - a.** true
 - b.** false

- 12.** Which of the following is NOT a financial document used to assess your finances?
 - a.** a bank statement
 - b.** a will
 - c.** a birth certificate
 - d.** an insurance policy

MINI CASE

Yasser's Vehicle Leasing Business

Abdullah, the manager in Riyadh has been working for Yasser's vehicle leasing business for one year and has been very busy. He has been living in a small apartment which is very cheap. Abdullah has enjoyed an active social life and always buys the latest technology. He recently visited a friend who lives in a luxury apartment and began to think about his own future and finances.

1. Abdullah wants to begin planning his future finances. Should Abdullah create a personal budget? Explain why a budget would or would not be helpful for him.

2. Abdullah has decided to keep good records of his spending. Recommend whether Abdullah should use manual or electronic records.

Abdullah has decided that he wants to buy an apartment. He has done some research and thinks that he will need to make a down payment of SAR 100,000 if he bought the apartment today. He thinks he will be able to save SAR 100,000 in five years.

3. Will saving SAR 100,000 in five years be enough for a down payment? Explain the impact of inflation on Abdullah's target?





How can you grow the value of your money?

4 Investing

LESSONS

- 4.1 How Are Saving and Investing Related?
- 4.2 What Are the Benefits of Investing?
- 4.3 What Are Your Investing Options?
- 4.4 How Can You Protect Financial Resources?

Saving and investing can help you accomplish short-term, intermediate, and long-term goals. Although some aspects of saving and investing overlap, there is a difference between the two.

Savings can provide for your short-term needs and goals. Once you start setting aside money on a permanent basis, you will be in a position to make investments and grow your wealth. Through sustained saving and investing, you will be able to achieve your personal financial goals. Your plan should be based on solid principles of investing. Consider the risk involved and the amount you can expect to earn.

Link to digital lesson



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4.1 How Are Saving and Investing Related?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain the relationship between saving and investing
- describe the features of the Saudi Social Development Bank's Zawd Al Ajyal savings program
- explain how savings and investments provide security and wealth.

Key Terms

Savings	Contingencies
Safety of principal	Liquidity
Depreciating asset	Illiquid
Investing	Appreciating asset
Emergency fund	

The Relationship Between Saving and Investing

Savings

money set aside for the future

It is important to ensure that you have **savings**. Savings, or *deferred spending*, is money not spent today which allows for needs to be met in the future. Saving money is important because:

- You are planning for planned future needs and wants, such as vacations.
- You have money available for emergencies, such as emergency smart device repairs.
- You have money available for unplanned spending, such as if your television needs replacing.

Safety of principal

protecting the money in your savings account

When you are saving money, the emphasis is on **safety of principal**. A bank savings account is a good, safe way to save because your

money is safe from destruction. For example, if your house burned down and you had money inside, you would lose all your money. If a bank burned down, you would not lose your money.

However, if you save your money in a bank account (or at home), the value of your money decreases over time. It is a **depreciating asset**. This means that you may need a strategy to ensure large amounts of money do not lose their value.

Therefore, when savings accumulate above what you might need for short-term goals and emergencies, you have money that can be used for **investing**.

The purpose of investing is to save money and make the value of your money grow every year. There are many ways you can invest, for example:

- Purchasing real estate, such as a house; this is both a financial investment and an investment into your future security.
- Buying shares of stock in a corporation; this is mainly a financial arrangement.

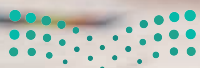
Depreciating asset

an asset that loses value over time

Investing

a strategy to increase the value of your money faster than the rate of inflation

▶ Do you have any savings?
Why? / Why not?





► How much did your smart phone cost new? How much can you sell it for today? Why?

Your hope is that the house and stocks will increase in value over the years that you own them. That way, you will have more money when you sell the investments than when you bought them. Saving and investing are related, because it is the setting aside of money (savings) that provides the funds that can be used for investing.

Savings Provide Security

Emergency fund

an amount of money set aside for unplanned expenses

Contingencies

unplanned or possible events

Liquidity

a measure of how quickly an asset can be turned into cash

When you set aside money, you have a reserve or **emergency fund** that you can count on. An emergency fund gives you a sense of security – knowing you can take care of **contingencies** when they arise. For example, suppose you are playing a video game with your friends, and your computer crashes and will not restart. You will need money to pay a technician to fix your computer, or you may even need to buy a new one. An emergency fund will provide for contingencies like this.

Experts recommend that a person set aside three to six months' salary in this emergency fund. It is important that this money is liquid.

Liquidity is important because:

- Emergencies often require you to access your money immediately.
- If your cash is **illiquid**, you may need to sell your assets at a reduced cost.
- You may find it difficult to sell illiquid assets.

Illiquid





an asset that cannot be easily sold or exchanged for cash without a loss in value

For example, a regular savings account is very liquid because you can withdraw your money at any time without penalty. Within your plan for financial security, it is important to have some liquid assets that are available to cover unexpected needs.




Zawd Al Ajyal Savings Program

The Saudi Social Development Bank has developed a three-year savings program which aims to educate Saudi children and young people from six to 18 years old. This interactive banking program encourages savings and financial understanding using financial incentives, awareness, and educational materials, all under the guidance of parents.

The main features of the savings program are:

	<p>Managing children's expenses and savings</p> <p>The program helps children to manage their expenses and savings by using parental controls and limits.</p>
	<p>Learning opportunities</p> <p>Young people will be able to try out new ideas and tools throughout the program, building a strong base of financial literacy.</p>
	<p>An electronic money jar</p> <p>This program provides a money jar to digitally save small amounts of money.</p>
	<p>No administrative fees</p> <p>Many bank accounts charge users money to manage their finances, however this educational savings program is free.</p>



	<p>A 3-year program This savings program lasts for three years, and provides lessons and instructions on elements such as saving and money management.</p>
	<p>Bonuses Young people will have incentives to achieve bonuses every month, as well as being able to achieve bonuses at regular intervals.</p>
	<p>Sharia-compliant This program teaches young people to understand finance in accordance with religious guidelines.</p>

As well as improving young people’s long-term financial literacy, the program has a very attractive short-term benefit. It offers financial incentives every month and quarter. The financial incentives are:

- monthly cash rewards (up to a maximum of SAR 15)
- monthly draws and prizes of up to SAR 100 and quarterly prizes of SAR 300.

Investments Provide Wealth

As investments continue growing, they lead to an increase in wealth. Wealth is the total value of the assets that you build up over time such as:

- stocks and shares
- houses and land
- **appreciating assets**, such as artwork or rare vehicles.

Appreciating asset

any asset which increases in value

Investing and Inflation

Most investments that are considered long-term, strategic choices are designed to stay ahead of inflation:

- When your investments are growing at a faster rate than the rate of inflation, you are accumulating wealth.
- When inflation is growing faster than your investments, your wealth is shrinking.

It is important to make good investment choices with your savings, which will lead to increased value over the long run. With any investments, you have the potential for great gain. However:

- you do not know how much you will earn on the money you invest – this depends on the success of your investment choices
- you may even lose the money you invest – some investments may fail and all of the money invested could be lost
- the higher the potential gain, the higher the risk.

With some investments, you may have temporary setbacks due to:

- market conditions that are beyond your control, such as world events or the popularity of a brand
- business decisions taken which do not meet your needs, such as focusing on social issues or company growth instead of investors' returns.

However, your gains from investments will usually exceed your losses over the 30- or 40-year period you could be investing money.

LOOKING AHEAD



What appetite for risk do you think you have for investing money?



Review Questions

Choose the correct answer.

1. Savings allow for needs to be met in the future.
 - a. true
 - b. false
2. Which of the following is NOT a benefit of saving?
 - a. It allows you to meet future needs.
 - b. You have money available for emergencies.
 - c. Your money can be invested and grow every year.
 - d. The value of your savings can decrease over time.
3. Which of these statements about investing savings is NOT correct?
 - a. you do not know how much you will earn on investments
 - b. your investment is 100% guaranteed
 - c. the higher the gain, the higher the risk
 - d. you may lose your investment
4. When inflation is higher than your gain from investment, your wealth is increasing.
 - a. true
 - b. false
5. Which of the following is NOT liquid?
 - a. cash
 - b. a house
 - c. a bank savings account
 - d. a product which can be sold quickly for the full value
6. It is important to have a plan for contingencies.
 - a. true
 - b. false

4.2 What Are the Benefits of Investing?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify three key benefits of investing.

Key Terms

Lifestyle

Tadawul All Shares Index (TASI)

Link to digital lesson



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The Benefits of Investing

Investing money is important because it means you are planning for future needs and wants. It helps you meet your financial goals and provide for your future financial security. There are many reasons for investing, however three of the most important are explained below.

1. To Meet Life Goals

Investing will help you to reach both your short-term and long-term goals to maintain, or even upgrade, your **lifestyle**.

Investing means you may build wealth to buy a large item like a car or a house, or pay for a child's international education.

For instance, if you invested SAR 1,000 in 2010 into **Tadawul All Shares Index (TASI)**, your investment today would be worth SAR 1,419 – a 42% increase on your capital. As shown in Figure 4.2.1, the highest annual return during the 2010–2020 period was 25.5% and, although the lowest was –17.1%, the value of your investment increased in the long term.

Lifestyle

the habits, tastes, moral standards, and economic level that, combined, are the normal standard of living of an individual or group

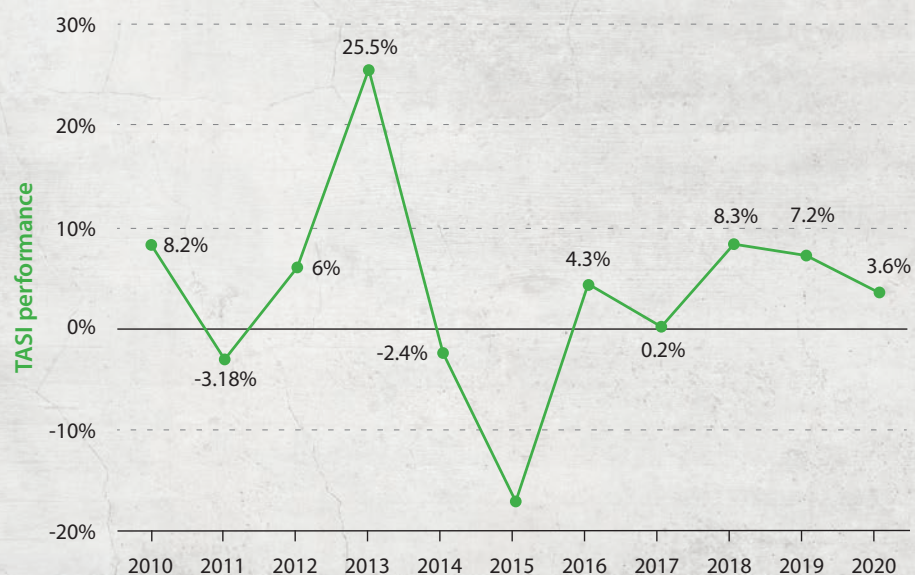
Tadawul All Shares Index (TASI)

the Saudi Arabian Stock Exchange



FIGURE 4.2.1

Annual Performance of Tadawul All Shares Index in Saudi Arabia 2010 to 2020



2. To Protect Your Money From Inflation

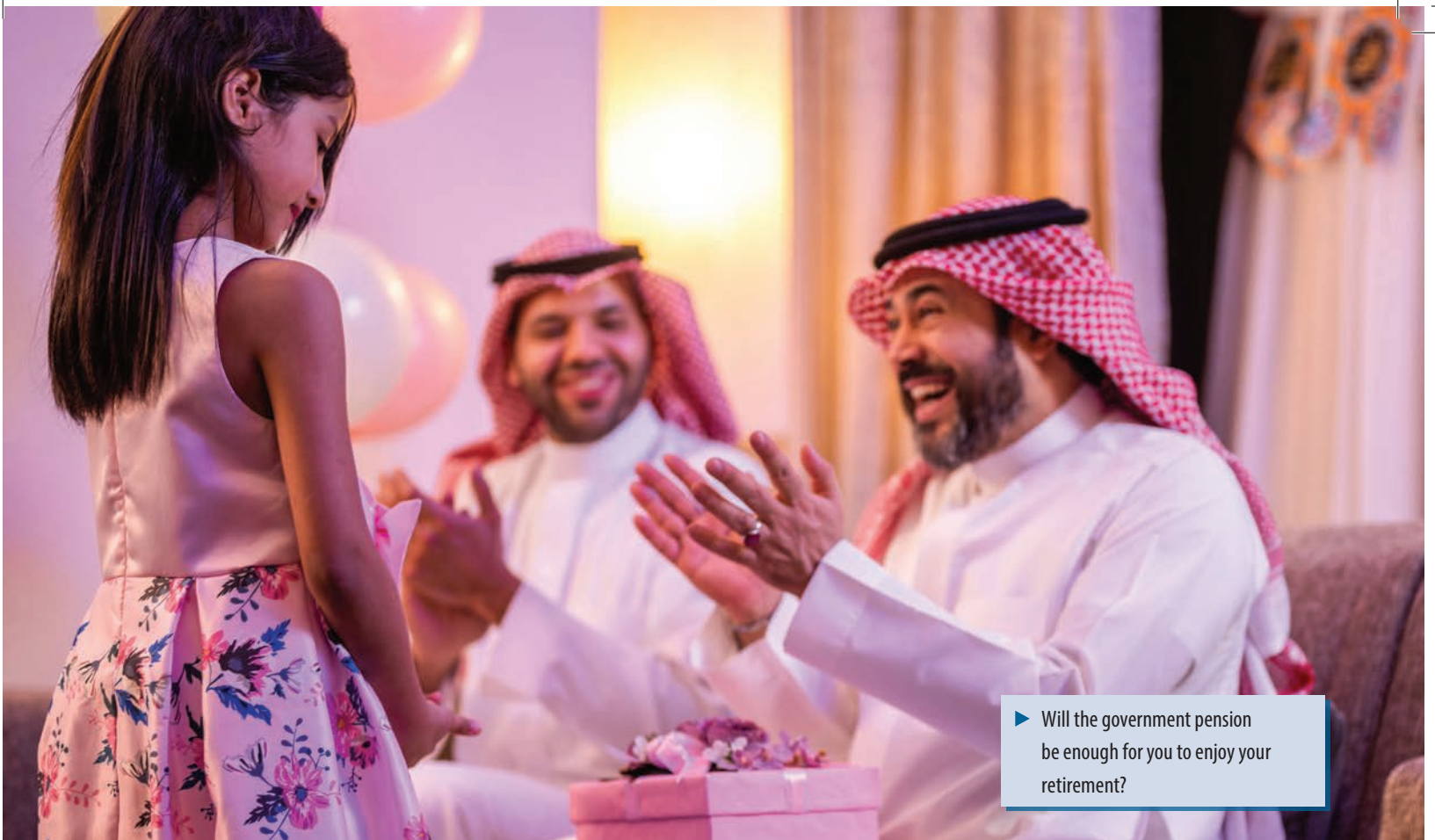
Investing helps protect your money from inflation. If you have savings which you do not invest, you will lose money over time.

3. To Save for Retirement

The government pension in Saudi Arabia (2022) is calculated by using a person's average monthly earnings during the last two years of working, up to a monthly maximum figure. Men and women must be at least 60 years old, and must have met certain other conditions.

In order to make sure that all Saudi citizens who have contributed are able to have a satisfactory standard of living, the government ensures there is a minimum amount paid to those who have retired.

It is important to predict what your outgoings will be when you retire and assess whether the government pension will cover your wants and needs.



► Will the government pension be enough for you to enjoy your retirement?

Review Questions

Choose the correct answer.

- Investing is not necessary for your future financial security.
 - true
 - false
- Which of the following is NOT a benefit of investing?
 - you will meet your life goals
 - you can lose all your money
 - your assets will be protected from inflation
 - you can save for retirement
- Which of the following statements about pensions is incorrect?
 - Men can save for government pensions.
 - Women can save for government pensions.
 - There is a minimum government pension age.
 - There is a maximum government pension age.
- Men and women have the same retirement age.
 - true
 - false



Link to digital lesson



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4.3 What Are Your Investing Options?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain the differences between long-term and short-term investment
- compare the features and benefits of different investment options such as T-bills, Sukuks, bonds, and stocks.

Key Terms

Short-term investment	Stock
Long-term investment	Equity
Dividend	Share
T-Bills	Money market mutual fund
Maturity	Yield
Sukuk	Crowdfunding
Bond	

Investment Goals

There are three main goals of investing:

1. **Safety of capital:** although no investing is completely safe, the safest investments are usually government-issued bonds, when the government borrows money for investing in large capital projects like Neom.
2. **Income:** investors want to receive regular returns from their investment which often involves more risk. This means the investment is likely to keep up with inflation but may be riskier.
3. **Capital growth:** when the investor sells the asset, the selling price should be higher than the purchase price.

There are two types of investment, short term and long term.

Short Term

Short-term investment goals are usually for three years or less – they can even be for less than one year. The aim should be a low level of risk and a high level of security of capital. The investor doesn't want to lose any money when they need to sell an investment to get their cash.

Short-term investment

assets that can be converted into cash, or can be sold within a short period of time – typically within 1–3 years

SHORT-TERM GOAL EXAMPLES



Remember:

- Investing for the short term means that you are unlikely to earn much of a profit.
- The riskier the investment, the higher the potential reward or loss.

Long Term

Long-term investment goals are at least four to ten years in the future. Due to the length of the investment, the level of risk can be higher as the investor does not plan on accessing their cash quickly. Long-term investing requires the shares to have regular annual dividends which can be reinvested.

Long-term investment

assets that an individual or company intends to hold for a period of more than three years

LONG-TERM GOAL EXAMPLES



Dividend

part of the profit of a company that is paid to shareholders

Remember:

- Long-term investments can have a higher risk as it does not matter if the price rises or falls every day, as long as the share prices are stable, and the company pays **dividends**.
- Long-term investments will be spread between companies with income return and capital growth potential.
- Long-term investments are much less liquid than short-term investments.

Investment Tools

There are many ways to invest, depending on the level of risk accepted and the interest of the investor into the process. Investors often invest small amounts of money monthly. Therefore, choosing their own investment may not be the best strategy. The section below explores some of the investment tools available.

T-Bills

T-Bills

short-term debt obligation issued by the Saudi Arabian treasury and backed by the Saudi Arabian government with a maturity of less than one year

T-Bills are a very safe form of investing. Governments often need to raise capital from the stock exchange to finance short-term projects and a T-bill can reach **maturity** in as little as four weeks up to 52 weeks. As the money is loaned to the government the investment is very secure, however it has a very small return:

- The government promises to pay the buyer, eg SAR 1,000 in four weeks.
- The government sells the T-Bill at a discount to the buyer at SAR 990.
- The difference is the return received for the investment.

Maturity

the date on which a debt must be paid in full

Bonds and Sukuk

The terms **Sukuk** and **bond** refer to securities with a longer-term goal. These investments may be for 10 years, 20 years, or even longer.

Sukuk

a Sharia-compliant bond-like instrument used in Islamic finance representing a direct asset ownership interest

- **Sukuk**

- The owner of a Sukuk certificate buys an asset (eg machinery) and has ownership of the machinery as long as they have the certificate.

Bond

an indirect debt obligation issued by governments and businesses

- The organization selling the certificate promises to buy back the Sukuk at a future date.
- The certificate owner receives a share of the earnings generated by the asset.
- **bond**
 - The owner of a bond certificate provides finance, however there is no asset attached to the purchase.
 - The organization selling the certificate promises to buy back the bond at a future date.
 - The organization selling the bond pays a fixed amount every month to the bond holder.

Stocks

Stocks are bought and sold on the stock exchange. These form the majority of an investor's portfolio. Stocks are sold to raise funds to operate a business. This **equity** allows the owner a **share** of the assets and profits of the business until the share is sold. A stockholder does not own the company as the company is legally owned by itself. Owning stock means a stockholder is able to:

- vote in shareholder meetings
- receive dividends
- sell the shares to another person.

Money Market Mutual Funds

A **money market mutual fund** allows a large number of smaller investors to invest directly into a variety of short-term shares. As these are usually issued in large numbers, a single investor may not be able to purchase them. The **yield** on these investments are usually low as there is often little risk involved.

Crowdfunding

New companies often have difficulty raising finance from traditional investment options, such as banks and the stock exchange, as they have no trading history and investors are unwilling to trust them with capital. In order to purchase materials and pay rent, new companies can **crowdfund** capital.

Stock

a financial instrument representing the ownership of a fraction of the issuing company

Equity

the money value of a property or business after debts have been subtracted

Share

allows the owner of the stock to own a portion of the company's assets and profit

Money market mutual fund

an alternative to the checking accounts, savings accounts, and savings certificates issued by banks

Yield

a method of measuring the return for an investment over a set period of time as a percentage

Crowdfunding

the use of small amounts of capital from a large number of individuals to finance a new business venture



Crowdfunding has advantages for both companies and investors (see Figure 4.3.1).

FIGURE 4.3.1
Advantages of Crowdfunding

Advantages for Companies	Advantages for Investors
It is a fast method of raising finance with little or few fees.	Small, easily accessible investment opportunities are available.
It can be a valuable form of marketing and promotion.	If equity is purchased, there is a potential for large returns on investment if the business is successful.
It can be a method of gaining feedback and expert advice from interested investors.	Investors have an opportunity to buy or receive the product for free, or at a very reduced cost, before anyone else.

► What is a successful crowdfunded product in Saudi Arabia? What were the investor rewards?



Review Questions

Choose the correct answer.

1. There is only one way to invest your money.
 - a. true
 - b. false
2. Which of the following is NOT an example of a long-term goal?
 - a. a child's education fund
 - b. an electronic games console
 - c. retirement
 - d. a vacation home
3. Which of the following is NOT a stock market investment tool?
 - a. mortgage
 - b. T-Bill
 - c. stock
 - d. Sukuk
4. A vacation is a short-term goal.
 - a. true
 - b. false
5. Which of the following is NOT an investment opportunity?
 - a. buying a property
 - b. buying a computer game
 - c. paying into a pension
 - d. buying shares
6. Every person has the same attitude to risk.
 - a. true
 - b. false



Link to digital lesson



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4.4 How Can You Protect Financial Resources?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify ways you can protect your financial resources
- explain the key points of the “Be Careful Campaign”.

Key Terms

Two-factor authentication (2FA)	Hacker
Phishing	Identity theft
Phisher	Fraud

Do you leave your front door wide open when you go on vacation? Do your parents leave the keys in their car when they are at work? It is important to make sure that you keep your assets safe to protect them from theft or misuse.

► How could you be affected if another person knew your social media and bank passwords?



Protecting Financial Wealth

In the same manner, you must also protect your financial wealth. There are a number of steps you can take to avoid losing your money.

- Deal only with financial advisers and financial institutions that you know and trust. Before working with a new financial adviser, research his or her background. Research can be done by:
 - asking friends, colleagues, and families for recommendations
 - asking for recommendations from trusted organizations such as the Tadawul
 - using online review forums.
- Be aware of the economy and how it affects your personal finances. It is your responsibility to know when to ask questions and make decisions about your investments. You can do this by:
 - reading and watching news from reliable sources
 - reading trade and business journals related to your investments
 - understanding the wider global economy and how it affects investments.
- Keep good records and verify account balances regularly. This can be done by:
 - using electronic record-keeping methods
 - downloading apps from your bank and trading accounts
 - setting aside a regular weekly time slot to review your finances.
- Keep your monthly statements in a safe place:
 - if your statements are paper based, keep them in a locked drawer or filing cabinet
 - if your statements are online, make sure your computer and any files have strong passwords.
- Guard your passwords for online banking and investment accounts. Ensure:
 - they are not easy passwords to guess, such as “1234” or your name
 - the same password is not used for your online social media and recreation accounts
 - the password is not written down and accessible to others
 - you never share your password or login with others
 - you use **Two-factor authentication (2FA)** where available.

Two-factor authentication (2FA)

an extra layer of security which requires another form of identification to a password, such as a fingerprint or security app on your mobile phone



► How could your thumbprint help keep your personal and financial data safe?



Phishing

You should also be aware of **phishing** scams. **Phishers** and **hackers** send email messages posing as your friends, family members, bank, or other legitimate businesses. The messages may ask you to verify private information, such as:

- bank account numbers
- bank card numbers
- security details like passwords or secret answers.

Do not respond to such an attempt to get personal information. Banks and legitimate companies do not ask for this information via email or even by telephone.

Identity Theft

If you give your financial information to these phishers, you may become a victim of **identity theft**. Those who get your personal information may be able to apply for new financial products in your name, or withdraw money from your accounts.

There are both short- and long-term problems which can be caused by identity theft. Some common short-term issues are:

- loss of money from your accounts
- inability to pay for short-term costs (eg. food and rent)
- loss of time contacting banks and other financial institutions to stop the identity theft
- changing bank and financial details to prevent further misuse.

Some common long-term issues are:

- **financial:**
 - Victims may face difficulty in applying for future bank loans and mortgages.
- **emotional:**
 - There may be blame within the family for not being careful enough, or due to the impacts of the identity theft.
- **social:**
 - Hackers who gain access to your social media can damage your reputation by posting fraudulent comments online.

Phishing

a common Internet scam that uses email messages to deceive you into disclosing personal information

Phisher

an attacker pretending to be a reputable business or person in email messages or other forms of communication

Hacker

someone who uses a computer system to gain unauthorized access to another system for data

Identity theft

the use of your personal information by someone else without permission to commit fraud or other crimes



Staying careful

Staying careful online can be difficult even for people who are wary of technology and do not trust it. For young people who have grown up with mobile technology and are comfortable with its use, it can be even easier to be caught unawares by fraudulent activity.

Social Engineering

How confident are you that a message is genuine when you are contacted by email or social media? Criminals are very good at manipulating people into sharing sensitive information such as their bank account details. The “Be Careful Campaign” aims to raise awareness of how **fraud** is carried out in order to help all Saudi citizens to protect themselves from these dangers.

Fraud

the crime of deceiving people in order to get money from them

The 5 Steps to Fraud by Social Engineering

Research carried out by Saudi financial institutions has created a five-point guide which shows how a fraudster can use social engineering to commit fraud. The five points are:

- **impersonation:** Criminals may pretend to be a professional such as a lawyer, doctor, or bank employee in order to impress you with a title.
- **study of behavior:** They may study your behavior in order to gain insight into your personality and find ways to deceive you.
- **taking advantage:** Customers need services and commodities, and these needs can be taken advantage of by criminals.
- **use of emotion:** Criminals may use emotional tactics to persuade you.
- **personal information:** They may request sensitive data such as personal information or bank details.

How to Identify a Potential Fraud

When an unknown caller or an unknown email address tries to make you open links by promising things which are too good to be true, it is likely to be a scam.

Things to look out for are:



If an email message has many spelling mistakes, you must be careful. Professional organizations make sure spelling, grammar, and the layout is perfect before any messages are sent. A poorly worded message is an indication a message is fraudulent.



LOOKING AHEAD



It is very important to think about security when dealing with finances. What steps can you take to develop your financial security?

Think about:

1. What steps can you currently take?
2. What areas of your financial and online security could be stronger?
3. What are the best methods of securing your finances and online security?

Review Questions

Choose the correct answer.

1. It is important to have different passwords for social media and financial services.
 - a. true
 - b. false
2. Phishers may use your stolen data to:
 - a. open new bank accounts
 - b. steal your money
 - c. go on vacation with your friends
 - d. post false messages on your social media accounts.
3. Which of the following is NOT a type of long-term issue that may be caused by identity theft?
 - a. financial
 - b. emotional
 - c. social
 - d. spatial
4. You should choose a password that is simple and easy to remember.
 - a. true
 - b. false
5. 2FA requires a fingerprint or security app in addition to a password.
 - a. true
 - b. false

Chapter 4 Assessment

SUMMARY

- 4.1**
- Saving and investing are related because excess money set aside in savings provides the funds that can be used for investing.
 - Saving and investing provide the funds needed to meet short-term, intermediate, and long-term goals.
 - Saving and investing provide the means for meeting expenses and enjoying leisure activities during later life and your retirement years.
- 4.2**
- Investing helps in meeting short- and long-term life goals which allows for the maintenance or upgrade of lifestyles.
 - Investing helps protect money from inflation and ensure the purchasing power of the investment does not decrease over time.
 - Investing for retirement allows investors to maintain a positive lifestyle at the end of their working life.
- 4.3**
- Investing can be low, medium, or high risk depending on the investment choice as well as external factors investors cannot control.
 - Investment can be long- or short-term depending on the needs of the investor and each have their unique advantages and drawbacks.
 - There are three main investment goals which consist of safety of capital, income, and capital growth. Which is chosen depends on the individual's needs and requirements.
 - Investment can be direct, where there is ownership of a specific company's shares; indirect, where a financial intermediary will combine funds and invest on the investor's behalf; and through securities, where the investment is held for a limited time period.
 - Popular investment tools consist of: T-Bills, bonds, and Sukuks, stocks, money market mutual funds, and crowdfunding. All have their unique attributes and are suitable depending on the individual circumstances of the investor.
- 4.4**
- There are a number of steps that are important to remember in order to protect financial resources from theft. 2FA is very important to remember when securing accounts.
 - Phishing is a common tactic used by criminals to access your personal and financial data and make fraudulent transactions, leaving the victim without access to their accounts and potentially facing criminal proceedings.



- Identity theft can create long-term financial, emotional, and social problems which may affect the ability of the victim to access future financial products and may even negatively impact their social status.

KEY TERMS

For each lesson, match the terms listed with their definitions. Write the letters of the correct definitions.

Lesson 4.1

Term	Your choice	Definition
1 Appreciating asset		a an asset that cannot be easily sold or exchanged for cash without a loss in value
2 Contingencies		b any asset which increases in value
3 Depreciating asset		c money set aside for the future
4 Emergency fund		d unplanned or possible events
5 Illiquid		e a measure of how quickly an asset can be turned into cash
6 Investing		f a strategy to increase the value of your money faster than the rate of inflation
7 Liquidity		g an amount of money set aside for unplanned expenses
8 Safety of principal		h an asset that loses value over time
9 Savings		i protecting the money in your savings account

Lesson 4.2

Term	Your choice	Definition
1 Lifestyle		a the Saudi Arabian Stock Exchange
2 Tadawul All Shares Index (TASI)		b the habits, tastes, moral standards, and economic level that, combined, are the normal standard of living of an individual or group

Lesson 4.3

Term	Your choice	Definition
1 Bond		a the date on which a debt must be paid in full
2 Crowdfunding		b a Sharia-compliant bond-like instrument used in Islamic finance representing a direct asset ownership interest
3 Dividend		c assets that an individual or company intends to hold for a period of more than three years
4 Equity		d short-term debt obligation issued by the Saudi Arabian treasury and backed by the Saudi Arabian government with a maturity of less than one year
5 Long-term investment		e an indirect debt obligation issued by governments and businesses
6 Maturity		f the use of small amounts of capital from a large number of individuals to finance a new business venture
7 Money market mutual fund		g part of the profit of a company that is paid to shareholders
8 Share		h a financial instrument representing the ownership of a fraction of the issuing company
9 Short-term investment		i the money value of a property or business after debts have been subtracted
10 Stock		j an alternative to the checking accounts, savings accounts, and savings certificates issued by banks
11 Sukuk		k allows the owner of the stock to own a portion of the company's assets and profit
12 T-bill		l a method of measuring the return for an investment over a set period of time as a percentage
13 Yield		m assets that can be converted into cash or can be sold within a short period of time, typically within 1-3 years



Lesson 4.4

Term	Your choice	Definition
1 Two-factor authentication (2FA)		a a common Internet scam that uses email messages to deceive you into disclosing personal information
2 Fraud		b an attacker pretending to be a reputable business or person in email messages or other forms of communication
3 Hacker		c someone who uses a computer system to gain unauthorized access to another system for data
4 Identity theft		d an extra layer of security which requires another form of identification to a password, such as a finger print or security app on your mobile phone
5 Phisher		e a person or thing that is not what it claims or pretends to be
6 Phishing		f the use of your personal information by someone else without permission to commit fraud or other crimes

PROBLEMS

1. How is investing money different from saving money?

2. What is the purpose of an emergency fund?

3. Explain one example of a long-term goal that can be met with money from investments.

4. Explain why investing will help maintain a lifestyle.

5. Explain how investing helps protect money from inflation.

6. Explain what is meant by future financial security.

7. Explain the meaning of a long-term investment.



8. Why is the willingness to accept risk important when making investment decisions?

9. Explain one benefit of a T-Bill.

10. Explain one method of protecting financial wealth.

11. Why should you not share your bank account passwords with others?

12. Explain one common short-term issue of identity theft.

EXERCISES

Choose the correct answer.

1. Which of the following is NOT a reason to save money?
 - a. You can plan for future needs.
 - b. Money is available for emergencies.
 - c. You want to spend everything today.
 - d. You have money for unplanned spending.

2. Safety of principal means investing in risky investments.
 - a. true
 - b. false

3. A depreciating asset gains value over time.
 - a. true
 - b. false

4. Investing helps meet future financial goals.
 - a. true
 - b. false

5. Which of the following is NOT a lifestyle factor?
 - a. education
 - b. habits
 - c. tastes
 - d. moral standards

6. TASI is the Saudi Arabian Stock Exchange Company.
 - a. true
 - b. false

7. Short-term investments tend to have a high level of risk and low level of security of capital.
 - a. true
 - b. false

8. Which of the following is NOT a main goal of investing?
 - a. safety of capital
 - b. safety of your health
 - c. income
 - d. capital growth



9. Sukuks and bonds are short-term investment tools.
- a. true
 - b. false
10. Keeping good records is important.
- a. true
 - b. false
11. Which of the following is NOT a common short-term problem of identity theft?
- a. loss of money from your accounts
 - b. inability to pay for short-term costs
 - c. changing banks
 - d. difficulty applying for a mortgage
12. A common emotional long-term issue of identity theft is difficulty in applying for bank loans and mortgages.
- a. true
 - b. false

MINI CASE

Yasser's Vehicle Leasing Business

Yasser's business has been very successful. His two locations are very profitable and he is making lots of profit. He now wants to open his business in every major city in Saudi Arabia and the Middle East. However, he requires a lot of investment.

Yasser is going to offer shares in his business on Tadawul, and has offered all his existing staff options to buy shares in the business. Abdullah is considering whether to invest.

1. Should Abdullah invest in Yasser's Vehicle Leasing Business?

2. If Abdullah does invest in the business, is it likely to be a short-term or long-term investment?

Abdullah has decided to invest into the business. However, he is not very experienced in buying stocks and shares. He sees an advert in his inbox from a person offering help with investing. All Abdullah needs to do is email the person his personal details, bank account number, and social security number.

3. Should Abdullah reply to the email? Explain your answer.



5 Managing Credit



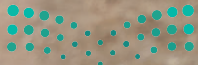
Why do people use credit?



LESSONS

- 5.1 What Types of Credit Can Consumers Get?
- 5.2 What Are the Advantages and Disadvantages of Credit?
- 5.3 How Can You Protect Yourself Against Credit Fraud and Scams?

Consumers buy products and services every day. Some of those decisions are good; some are not. This chapter is about making good buying choices and using credit wisely. Overuse and misuse of credit can lead to many undesirable outcomes. There are many types of consumer credit. Some types are relatively inexpensive and easy to use. Other types are restrictive, expensive, and can lead to financial disaster. High fees and penalties are often imposed on those who are rated as poor credit risks. Making the right buying decisions and being smart about using credit can maximize your purchasing power.



Link to digital lesson



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5.1 What Types of Credit Can Consumers Get?

Learning Objective

Once you have completed this lesson, you should be able to:

- explain different types of credit such as credit cards, charge cards and consumer loans.

Key Terms

Credit	Charge card
Borrower	Consumer loan
Debt	Annual percentage rate (APR)
Lender	Line of credit
Mada card	Service credit
Credit card	

Credit

the ability to borrow money and pay it back later

Borrower

a company or individual who takes money from someone else

Debt

money that must be repaid

Lender

an organization or person who gives money to someone else

Mada card

a debit card issued by local banks that allows a cardholder to access funds in their account

Credit

Credit is the ability to borrow money and pay it back later. The purpose of credit is to allow buyers to purchase items and pay for them in the future. The person who borrows money is called a **borrower** (debtor), and the money that must be repaid is called **debt**. A **lender** (creditor) is a person or institution that loans money to others. Lenders charge money for this service in the form of fees.

A good way to get started with credit is to open a savings or current account and get a **Mada card**. Once you prove that you can manage those accounts and have a steady source of income, you will have a much better chance of qualifying for credit.

When you apply for most forms of credit, you will need to fill out a credit application. The application will ask for your name and address.



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You will also be asked questions such as:

- where you work
- how much you make
- how long you have worked there.

The lender must determine that you are creditworthy. The more trustworthy a person is, the better the credit benefits will be. Main credit benefits include:

- **amount of credit available:** The better the credit score, the more credit is offered.
- **cost of fees:** The more trustworthy the borrower is, the lower the fees are.
- **amount of products offered:** More options are available to those deemed trustworthy.

There are different types of credit available. They are designed to meet different consumer needs. The main forms of credit are credit cards, charge cards, consumer loans, lines of credit, and service credit.

1. Credit Cards

Credit cards are available from banks and other institutions, and are usually issued through a provider such as Visa or MasterCard. With a credit card, you can buy products or get cash at ATMs around the world.

Bank credit cards usually have a set limit that a person is able to borrow. After using the card, the account holder makes payments to the account, usually each month. The entire debt or part of the debt can be paid each month.

If the debt is not repaid, fees will be charged on the outstanding balance. Accounts can have an ongoing balance, but a minimum monthly payment is usually required. If the outstanding balance is paid in full each month, no fee will be charged.

Credit card fees can be higher than other forms of credit. Credit cards may also charge an annual fee for the privilege of having access to credit, however many credit cards now have associated benefits, such as:

Credit card

a plastic card linked to a credit account that can be used to make purchases



- cashback on purchases
- discounts at certain shops
- worldwide travel insurance.

Charge card

a type of electronic payment card for which the cardholder must pay the balance in full by the due date

2. Charge Card

A **charge card** is different from a credit card because the cardholder must pay the balance in full by the due date. A monthly billing period is common. Because charge card balances must be paid in full each month, there are no borrowing fees. Thus, charge cards often require a large annual fee, but they usually have high or no credit limits.

If the bill is not paid on time, late fees and other penalties may apply. Charge cards are widely accepted nationwide and internationally.

An example of a charge card is American Express.

3. Consumer Loans

Banks and consumer finance companies make consumer loans. A **consumer loan** is when a loan provider purchases an asset for the consumer and sells it back to the consumer at a mark-up after a set period of time. Regular payments are made until the consumer has made the final payment.

Loans do not allow for:

- **continuous borrowing:** each loan is for a specific purpose
- **varying payment amounts:** the payments are divided over a fixed amount of time.

For example, a consumer might borrow SAR 1,200 and pay a fee of 16%. This is called the **annual percentage rate (APR)**.

The consumer (borrower) is required to make regular payments, which includes the fee, for a set period of time until the loan is repaid. Figure 5.1.1 shows an example of a consumer loan payment plan.

Annual percentage rate (APR)

the cost of the credit extended to the consumer by the bank

► Would you rather pay with a credit card or a charge card? Why?

Amount borrowed	SAR 1,200.00
Annual percentage rate (APR)	16%
Number of monthly payments	36
Amount of monthly payment (including both principal and APR)	SAR 42.19
Total amount to be repaid (36 payments of SAR 42.19)	SAR 1,518.84
Total APR paid for the loan	SAR 318.84

FIGURE 5.1.1
Personal Loan Payment Plan

Loans are often useful for larger purchases where the consumer does not have the required amount of money, and is unlikely to be able to save the total amount in the required time frame. Loans are useful for larger purchases such as:

- cars
- furniture
- vacations
- home improvements or repairs.

4. Line of Credit

A **line of credit** is a preapproved loan amount that a borrower can borrow as needed for the purchase of a product. It is available through banks, credit card institutions, and other lenders.

With a line of credit, the maximum amount that can be borrowed is set so you will know how much you have available to finance a purchase. It allows you the flexibility of knowing that you have credit on hand in case you need it. No APR is charged on the unused portion of the line of credit.

Line of credit

a preapproved loan amount that a borrower can borrow as needed

5. Service Credit

Almost everyone uses some type of **service credit**. Your telephone and utility services are provided a month in advance; then you are billed.

Service credit is also extended by doctors, dentists, lawyers, dry cleaners, and others. These businesses often provide services in advance that you pay for later.

Service credit

the ability to receive services and pay for them later





► Why do cell phone contracts use service credit?

Review Questions

Choose the correct answer.

1. The purpose of credit is to allow buyers to purchase items and pay for them immediately.
 - a. true
 - b. false
2. Which of the following is NOT a benefit of credit cards?
 - a. cashback on purchases
 - b. fees payable
 - c. discounts at certain shops
 - d. worldwide travel insurance
3. Which of the following is NOT an appropriate use for a loan?
 - a. purchasing a car
 - b. new furniture
 - c. weekly shopping
 - d. home improvements
4. Service credit is the ability to pay for a service and receive it later.
 - a. true
 - b. false

5.2 What Are the Advantages and Disadvantages of Credit?

Learning Objective

Once you have completed this lesson, you should be able to:

- identify the advantages and disadvantages of credit.

Key Terms

Credit score

Fee

Link to digital lesson



www.iem.edu.sa

Credit Score

It is important to have a good **credit score** when applying for credit. An example of a credit agency that holds credit reports in Saudi Arabia is the Saudi Credit Bureau (SIMAH). The better your credit score:

- the lower the credit fees
- the wider the range of financial products you will be able to access
- the more likely you are to be accepted for a financial product.

Credit score

a tool used by lenders to help determine whether you qualify for a particular credit card, loan, mortgage, or service

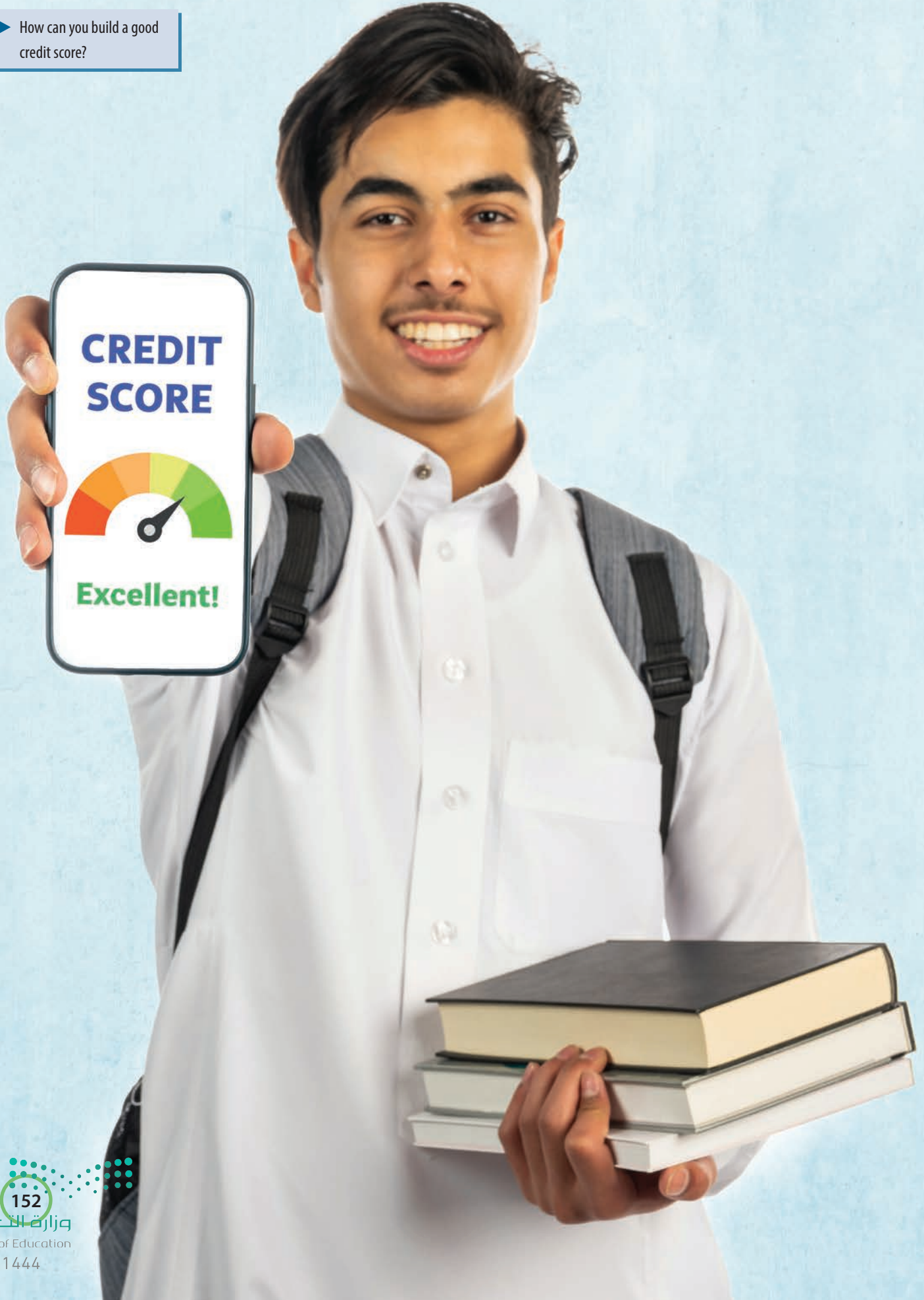
Advantages and Disadvantages of Credit

People use credit for a variety of reasons. Credit provides many benefits when used wisely. However, many people get into trouble each year by not using credit carefully.

As with many things in life, there are both advantages and disadvantages to using credit. When making a purchase, be sure the advantages of using credit outweigh the disadvantages.



► How can you build a good credit score?



Advantages of Credit

Credit is important because it offers many advantages.

1. Increased Purchasing Power

Credit can greatly expand your purchasing power and raise your standard of living.

- Most people cannot purchase expensive items, such as a car or a house, simply by saving money and paying cash.
- Credit allows you to purchase these items and pay for them over time. As a result, you can enjoy these items now instead of later.

2. Security

Using a credit card is safer than carrying cash with you.

- If you lose cash, there is no way to replace it.
- If you lose a credit card, you can simply call the bank or institution and report your lost or stolen card.
- When you report a lost or stolen card, the bank or institution will freeze your card; you will not be held responsible for charges you did not make (within certain limits).

3. Convenience

Credit is convenient. Most businesses now accept credit cards.

- Many accounts on which you make regular payments, such as monthly subscriptions, can be set up to be billed automatically to a credit card.
- Consumers can also use credit cards to get a cash advance, which is money borrowed against the credit card; this can be useful when purchasing foreign currency.



4. Leverage

When using credit, consumers have more leverage than they do when using cash or other methods of purchase.

With credit, you can withhold payment for disputed items while the dispute is being investigated. However, with a Mada card, check, or cash, money has already been paid for the purchase; this can make it more difficult to settle a dispute and get a refund.

5. Benefits

Credit customers often get special benefits.

- Credit card holders might, for example, receive advance notice of sales and special offers from partner organizations, which the general public does not receive.
- Credit cards may have incentive programs for their customers, for example, some credit cards have a rewards program through which you earn:
 - points
 - cash back
 - airline miles
 - other special awards.
- These rewards can be redeemed at a later date and used to purchase an unexpected item or treat that has not been budgeted for.

► Should you use credit for all of your purchases to maximize the potential advantages?



Disadvantages of Credit

Although credit has several advantages, it also has disadvantages.

1. Fees

An item purchased on credit and paid for over time costs more because of the **fee**.

- For example, a fee of 18% per year, is equivalent to 1.5% per month.
- This means that, on a SAR 1,000 balance, the fee would be SAR 15 per month.
- The larger your balance and the longer you take to pay it off, the greater the fee.

Fee

a margin above the costs that allows the borrower to repay in instalments

2. Reduction of Future Buying Power

When credit is used, future income is tied up by committing to make payments.

- Part of everything you earn in the future will go toward what you bought in the past.
- This can result in money being unavailable when you need to purchase other products.

3. Overspending

Buying on credit can lead to overspending.

- Because no cash leaves your bank account, you may not realize how much you are really spending.
- Using too much credit can result in debts so high that you can never pay them off.
- Failure to fulfill financial agreements will result in a poor credit score.

4. Identity Theft

Having a credit card means that you run the risk of your account information being stolen. This might result in someone else making



purchases on your credit card without your knowledge, leaving you with a poor credit score and the inability to access future credit facilities.

LOOKING AHEAD



How can you ensure that you use credit responsibly in the future?

To help you structure your thoughts, consider:

- What regular service credit will you use?
- How will you manage your credit facilities?
- How will you keep a record of the credit used at any one time?

Review Questions

Choose the correct answer.

1. Credit scores are NOT important when applying for financial products.
 - a. true
 - b. false
2. Which of the following is NOT an advantage of credit?
 - a. security
 - b. reduction in future buying power
 - c. convenience
 - d. special benefits
3. Which of the following statements is NOT related to overspending?
 - a. you may not realize how much you are really spending
 - b. it can result in debts so high that you can never pay them off
 - c. you can easily manage the minimum payments
 - d. it can result in poor credit scores
4. It is important to use credit responsibly.
 - a. true
 - b. false
5. Identity theft can negatively affect your credit score.
 - a. true
 - b. false

5.3 How Can You Protect Yourself Against Credit Fraud and Scams?

Link to digital lesson



www.iem.edu.sa

Learning Objective

Once you have completed this lesson, you should be able to:

- identify the Do's and Don'ts involved in preventing credit card fraud
- explain the steps someone should take if they find they are a victim of identity theft or credit card fraud.

Key Terms

Scam

Skimming

Credit card fraud

Spam

Every year, millions of credit card customers lose money to credit fraud and **scams**. They can drain your finances and hurt your credit. There are warning signs to look for and actions you can take to avoid becoming a victim.

scam

a deceptive scheme or trick used to cheat someone out of something



► Have you ever been tricked? Why did you not realize it was a trick?



Credit Card Fraud

A person may have improper charges made to their credit accounts. When someone intentionally uses another person's credit account information to steal money or goods, this is a crime called **credit card fraud**.

Thieves steal credit card information in numerous ways:

- Using a lost or stolen credit card is the most common way.
- **Skimming** devices can be used to steal credit card information.
 - When the credit card is run through a skimmer, the device stores the credit card information.
 - Skimming often occurs at retail stores, restaurants, and gas stations, where cardholders let their cards out of their sight.
- Finding credit card information from your mail or discarded trash; thieves sort through it to get copies of credit card statements.
- Using the Internet to steal credit card information.
 - Hacking unsecure websites and stealing the financial data stored on those sites is the most common method.
 - Using phishing scams as explained in Chapter 4 and **spam** (junk email), to trick consumers into supplying their credit card information.

Victims of credit card fraud should notify the lender as soon as possible.

Credit card fraud

intentionally using someone's credit account to steal money or goods

Skimming

stealing someone's credit card details using electronic equipment

Spam

irrelevant or unsolicited messages sent to a large number of Internet users

► How many spam emails do you receive a day? Have you ever answered any?



Some steps that could be taken to help prevent credit card fraud are listed in Figure 5.4.1.

Do's

- Carry only the cards needed.
- Keep a list of credit card numbers, their expiration dates, and the phone number and address of each card issuer in a safe place.
- Notify lenders immediately if a card is lost or stolen.
- Learn the features of credit card apps. Some allow you to temporarily block credit cards.
- Verify purchases and account balances when a statement is received.
- Tear up old receipts and statements containing account numbers when no longer needed.
- Destroy expired cards by cutting them up.
- When shopping online, verify website security by checking the following points:
 - A secure website's URL starts with https:// rather than http://.
 - Secure websites also have a small lock icon in the address bar or somewhere in the window of the browser.
- Monitor credit activity. It is possible to monitor credit activity yourself online.
- Sign up to credit monitoring agencies that provide credit monitoring facilities; these:
 - notify the account holder of any changes to a credit file
 - send an alert if any change or suspicious activity occurs.
- Check your credit report regularly; consumers have the right to one free copy of their credit report annually.

Don'ts

- Do not lend credit cards to others.
- Do not give out any credit card information over the phone or online to unknown people or businesses; be sure businesses are reputable.
- Don't store credit card information on the merchant's website; although this makes shopping faster and easier, credit card information could be at risk if the website experiences a data breach.

FIGURE 5.4.1

*Preventing Credit Card Fraud
Do's and Don'ts*





► How often do you check your bank accounts or financial situation each month?

Identity Theft

According to the Saudi government, identity theft is a fast-growing crime in Saudi Arabia. A thief may use your:

- National Identification Number
- bank account number
- credit card number

to:

- make purchases
- take out loans
- apply for new credit accounts.

He or she may even take a job and use your name and personal data, which may in turn affect the resources available to you as a citizen of Saudi Arabia.

Only certain businesses have the right to your National Identification Number, including:

- motor vehicle departments
- banks and employers.

If you are asked for your National Identification Number by any other person or business, ask why it is needed and what law requires you to give your number. Do not feel any obligation to share this data with unknown people you do not trust.

If you find you are a victim of identity theft or credit card fraud, take the following steps quickly:

1. Close or freeze your credit account(s)

- Call the fraud department of your credit issuer and explain that someone has stolen your identity.
- Ask to have your account closed or frozen.
- Change your log-in, password, and PIN (personal identification number).

2. Have a fraud alert placed on your credit reports

- Contact the credit bureaus about a fraud alert.
- This can help stop someone from opening a credit account in your name.

3. Report the crime to the nearest Public Security Department through the Absher system

- Select the cybercrime report in the Public Security Services web page.
- Fill in the required columns.
- A reference number will be assigned to the report.

4. File a report with your local police

- The police station will forward the crime report to the Saudi Bureau of Investigation and Public Prosecution (BIPP) to investigate the crime.
- The BIPP will investigate the identity of the suspect in cooperation with other authorities.

5. Contact other government agencies

- The agencies that issued your identification documents, such as a driver's license, need to be informed so you can get a replacement document.
- Ask the agency to place an alert in your file so that another person cannot get an identification document in your name.



► What agencies can help you to manage debt and debt problems?



LOOKING AHEAD



How can you protect yourself against future identity theft and data scams?

To help you structure your thoughts, consider:

- Where are you most likely to share information?
- How much information do you already share on social media?
- How can this information be used to harm you?

Review Questions

Choose the correct answer.

1. Credit card fraud can only happen if you let somebody use your card.
 - a. true
 - b. false
2. Which of the following options is NOT recommended when you have found you are a victim of fraud?
 - a. report to the police
 - b. carry on as normal
 - c. close or freeze your account
 - d. contact other government agencies
3. Thieves may use your bank account number to:
 - a. make purchases
 - b. take out loans
 - c. apply for new credit accounts
 - d. all of the above
4. Credit card information can be stolen by:
 - a. skimming
 - b. finding discarded credit card statements
 - c. hacking unsecure websites
 - d. all of the above



Chapter 5 Assessment

SUMMARY

- 5.1**
- Credit is the ability to borrow money with the agreement to pay it back later, usually with a fee.
 - Types of credit available to consumers include credit cards, charge cards, consumer loans, lines of credit, and service credit.
- 5.2**
- Credit is used for a variety of reasons and, if used wisely, provides many benefits. However, credit can lead to financial difficulty if not used carefully.
 - Advantages of credit are increased purchasing power, security, convenience, leverage, and special benefits such as rewards.
 - Disadvantages of credit are the finance charge on items purchased, the decreased ability to spend in the future, the tendency to overspend, and the risk of identity theft.
- 5.3**
- Credit card fraud is a common form of identity theft. It can occur when victims use unsecured websites, or when thieves use lost or stolen credit cards, data, or skimming devices.
 - Identity theft occurs when someone uses your personal information without your permission to commit fraud or other crimes.
 - It is important to understand the process to protect your personal data if you have been a victim of identity theft, in order to minimize future disruption.

KEY TERMS

For each lesson, match the terms listed with their definitions. Write the letters of the correct definitions.

Lesson 5.1

Term	Your choice	Definition
1 Annual percentage rate		a an organization or person who gives money to someone else
2 Borrower		b a preapproved loan amount that a borrower can borrow as needed
3 Charge card		c a company or individual who takes money from someone else
4 Consumer loan		d the ability to receive services and pay for them later
5 Credit		e a type of credit card for which the cardholder must pay the balance in full by the due date
6 Credit card		f the ability to borrow money and pay it back later
7 Debt		g a plastic card linked to a credit account that can be used to make purchases
8 Lender		h money that must be repaid
9 Line of credit		i a debit card issued by local banks that allows a cardholder to access funds in their account
10 Mada card		j the loan provider purchases assets for the consumer and sells the assets back to them at a profit after a set period of time
11 Service credit		k the cost of the credit extended to the consumer by the bank

Lesson 5.2

Term	Your choice	Definition
1 Credit score		a a margin above the costs that allows the borrower to repay in instalments
2 Fee		b a tool used by lenders to help determine whether you qualify for a particular credit card, loan, mortgage, or service



Lesson 5.3

Term	Your choice	Definition
1 Credit card fraud		a a deceptive scheme or trick used to cheat someone out of something
2 Scam		b irrelevant or unsolicited messages sent to a large number of Internet users
3 Skimming		c stealing another person's credit card details using electronic equipment
4 Spam		d intentionally using another person's credit account to steal money or goods

PROBLEMS

1. What is the purpose of credit? Explain your answer.

2. Identify and explain one main feature of a credit card.

3. Identify and explain one difference between credit cards and charge cards.

4. Does credit provide consumers with more or less leverage than cash? Why?

5. Explain what is meant by a fee.

6. How does credit reduce a consumer's future buying power?

7. Explain why freezing your credit card is important when you find you have been a victim of credit card fraud.

8. Identify and explain one way in which thieves are able to obtain consumers' credit card information in order to commit fraud.



EXERCISES

Choose the correct answer.

1. A person who takes money temporarily from a bank or financial institution is called a borrower.
 - a. true
 - b. false
2. Which of the following is NOT an appropriate step in preparing yourself for a credit card?
 - a. opening a current account
 - b. managing your account carefully
 - c. having no income
 - d. having a steady source of income
3. Which of the following is NOT an example of a credit benefit?
 - a. amount of credit available
 - b. a better paying job
 - c. lower cost of fees
 - d. amount of products offered
4. There are no disadvantages when using credit.
 - a. true
 - b. false
5. A Mada card is a credit card.
 - a. true
 - b. false
6. Which of the following is NOT a benefit available to credit card holders?
 - a. points
 - b. cashback
 - c. no fees
 - d. airline miles

7. Which of the following is unlikely to lead to credit card fraud?
 - a. losing a credit card
 - b. being a victim of skimming
 - c. using a website with a URL starting with https://
 - d. throwing away statements without destroying them

8. Which of the following will NOT help prevent credit card fraud?
 - a. carrying only the cards you need
 - b. notifying lenders as soon as you discover a card is lost or stolen
 - c. giving your card to a person who takes it into a back room
 - d. learning the features of credit card apps

9. The first step after discovering you are a victim of fraud is to call the fraud department of your credit issuer.
 - a. true
 - b. false



MINI CASE

Yasser's Vehicle Leasing Business

Yasser has noticed that the money in the business bank account does not match the amount of money received by his customers. He is worried he may have been a victim of fraud.

1. What is the first thing that Yasser could do?

Upon further investigation, Yasser has identified payments to an unknown supplier for products he has not received. When he checks the website, the URL does not start with https://.

2. What would you advise Yasser to do next?

Due to the fraud, Yasser does not have enough cash in his bank account to pay his expenses. He must apply for credit in order to avoid becoming insolvent.

3. What type of credit should Yasser apply for?

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