EXCELLENCIA
INTERNATIONAL MULTI-DISCIPLINARY JOURNAL OF EDUCATION
Volume 02, Issue 05, 2024 ISSN (E): 2994-9521

Savings and Investment for Personal Income as Well as Nation Building

Prabhash Kumar De [1], Swapan Kole [2]

[1] SACT, Department of commerce, A.K.P.C. Mahavidyalaya Bengai, Hooghly, W.B., India-712611

[2] Guest Teacher, A.K.P.C. Mahavidyalaya Bengai, Hooghly, W.B., India-712611

Abstract:

This article enables a common man to understand the significance of savings and investment. It mentions various investment schemes and compares them. It will guide one who desires to save and invest. Such knowledge helps individuals in their financial planning, which impacts positively on national as well as on global economy. It also familiarizes one with rich economy and economic activities of ancient India and shows how India is gradually becoming an economic superpower.

Keywords: Savings and Invest, Time Value of money, depositor, NIFTY, mutual fund, budgeting, stock exchange, share market, SEBI, investor protection fund, economic growth.

INTRODUCTION

A great deal of knowledge of economic activities in ancient India comes from Chanakya's Arthashashastra as well as Chanakya Neeti. [1]Accordingly, savings and investment and their relative score were matters of great concern in ancient India. For the sake of risk-free income generation, Chanakya stressed on financial literacy of people, planned efficient utilization of resources, and creation of a variety of income sources through investment. He also reminded the necessity of maintaining ethics and morality in the process of earning money, as it pays richly in the long run. Saving is relevant to all to meet any calamity including an unfortunate development in anyone's life. However, investment is a better option to make money from money, although there is always a risk. In addition, in present-day savings, money is not necessarily idle, it generates interest, which is the rent paid to the depositors for the use of their money, and provides a way to earn some money.

[2]Chanakya cautioned against lavish spending and advised to save to develop an emergency fund to face any unwanted happenings like job insecurity, premature loss of physical ability due to some

disease or accident, and people dependent on agriculture may suffer from loss of crop due to flood, famine, or insect attack. He also affirmed that everyone should be in a position to avail money whenever required. So he counseled for charity with warning that charity money should reach the rightfully deserving person(s) who would use it properly. Moreover, a bitter fact is that the actual value of money (i.e., the time value of money) decreases with the passage of time. So, investment might be a better option for making money from money. However, each investment has a risk factor. Prior to investment, risk assessment must be done carefully, and one should choose the areas of their investment carefully.

Ancient Indian history reveals that Indians have had a tradition of savings since ancient times. Ancient people used to save a portion of their agricultural produce (being perishable, these items could not be preserved for long duration) for a year or so to face any widespread loss of crop in the next harvesting. With the development of trade and commerce, precious metal coins were introduced. These metals and coins were also used as items of savings. For the sake of safety, these items would have been buried underground secretly. Quite often future generations would have forfeited them due to lack of information about the wealth.

In modern times, paper money is in use, and the banking facility have changed the saving methods. Also, investments are done through banks and post offices, brokerage firms, insurances, and mortgage companies. Banks and other financial institutions provide an interest to the depositors and help them to save profitably. Financial institutions invest the money against an interest on various projects run by individuals, companies, and the government. Ultimately, savings are used in areas like industrial growth and manufacturing of new items, modernization of agriculture, infrastructure development, and providing free education and health care to the people. Equivalently, the personal and other savings strongly contribute to the nation building. Moreover, countrywide banking network enables anyone to plan their savings as a source of regular income generation.

The concept of savings is deeply entrenched in the minds of common people of India. Quite often their thoughts and activities are astonishingly pragmatic. For example, a common villager, Late Ajit Kumar Kole (Father of Shri Swapan Kole), Khatogram, Goghat, Hooghly, West Bengal, used to advise that a lime (fruit) being sold at ₹ 1 per piece is very costly if one does not need it, but is quite cheap if it is sold at ₹ 5 per piece and one needs it. How pragmatic a decision it is!!! Apparently it is a simple statement without much significance. On the contrary, it offers a good lesson on judicious spending without compromising with the actual needs. It aims at reducing wastage, encourages to save the excess money after meeting all the necessary expenditures, and increases personal wealth and savings which might be utilized for local area development and national prosperity.

India is performing nicely on economic front. It has emerged as 5th largest economy (next to US, China, Germany and Japan) in the world in terms of GDP (Gross Domestic Product) Nominal by the end of the year 2023 and as 3rd largest economy (in the order China, US, India, Japan, Russia,) in terms of GDP PPP (Purchasing Power Parity). [3]The present article highlights various savings and investment schemes available with the financial institutions of the country. In this context, the write-up defines the terms like Share, SENSEX(which is the oldest stock exchange in India),mutual fund(an investment fund that pools money from money investors to purchase securities), debenture, liquidity, NIFTY(National Stock Exchange Fifty), ELSS(an Equity Linked Savings Scheme), NSDL(National Securities Depository Limited) and SEBI(Securities and Exchange Board of India). It also discusses the terms and conditions of depositing or investing the money and their security, and compares the functioning of the schemes so that an investor can choose the right scheme(s) as per their need.

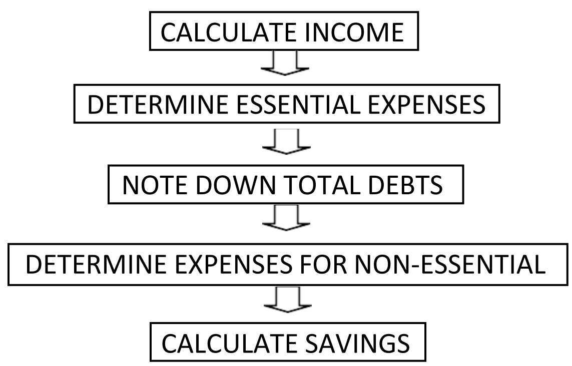
IMPORTANCE OF FINANCIAL PLANNING FOR SAVINGS AND INVESTMENT

Financial planning is must for every household. It goes beyond savings. It is a plan to save and spend future income and should be carefully budgeted. Through proper management of finance, people can fulfill their goals like buying a house, providing quality education to youngsters, or planning for retirement. Financial planning envisages both short-term and long-term savings. A portion of the savings is invested in certain assets such as bank deposits, government savings schemes, shares, mutual funds, insurance, commodities, bonds, debentures and company fixed deposits. Financial planning requires focus and discipline that helps us take a “big picture” look at where we are and where we want financially to be.

Money doesn’t grow on trees. It actually grows on other money. It takes money to make money. Money does have an amazing ability to make more money. Small savings meet our short-term goals. Our money is safe in a savings account and provides an earning of a small amount of interest. In addition, we can set our money aside for long-term goals. It is normal for investments to rise and fall in value over time. But, in the long run investments usually return more money than what can be obtained as interest from deposits in savings account. Saving money, if possible, since an early stage of life keeps one ready to face any future financial crisis. In usual situation, youngsters would find a larger span of time to pursue their dreams and thus have much better chance to reach their financial goals.

ROLE OF BUDGETING:

The first step in our financial planning is budgeting. It is a process for tracking planning and controlling the inflow and outflow of income. The primary aim of budgeting is to ensure a modest saving after the allocation for spending. It is a process that involves the steps:



People follow various patterns of Rule of Budgeting, or Rule in the Financial Planning, for example 50-30-20 rule, 40-40-20 rule, and 70-20-10 rule. Such a budget rule, say 50-30-20 rule, says that 50% of after-tax income should be spent on needs and obligations, 30% on our wants, and remaining 20% on savings, investments, and debt repayment. A pie chart (a circular chart) of 50-30-20 Rule of Budgeting is given below (Fig. 1)

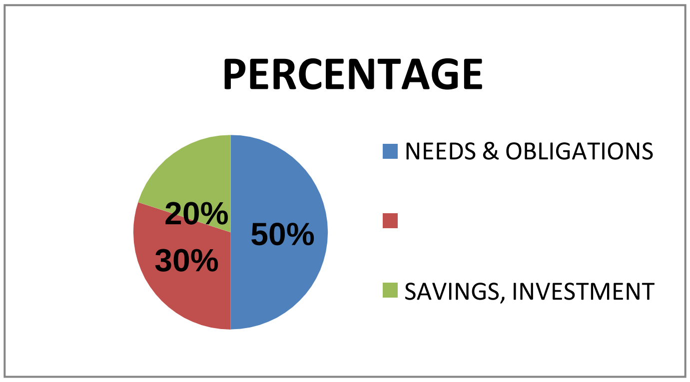


Fig. 1: Pie Chart of 50-30-20 Rule of Budgeting

The magical power of financial planning is compounding. **Einstein** had once remarked, "The most power force in the universe is compound interest". If we park our money in an investment with a given return and re-invest those earnings as we receive, then the investment grows exponentially over time. It's the process of compounding. With simple interest one earns interest on the principal only. But, in compounding in addition to earning interest on the principal, one also earns interest on the interest.

DEPOSIT FACILITIES FOR SAVINGS IN OUR COUNTRY

There are several short-term and long-term financial investment options. The choice of the best investment option will depend on personal circumstances as well as general market conditions. Right investment is a balance of three things—liquidity, safety and return. To reduce risk, asset allocation across various asset classes, which have their own risks and returns is desirable. It is a technique for investing our money into various asset classes that would suit our income and risk appetite.

Knowing exactly where one stands financially, is an important insight into one's financial strength. Compilation of financial statements is one of the best ways to gain this kind of insight. Self-portrait helps to achieve identifying goals, identifying assets, identifying liabilities, and estimating future earnings.

To achieve our financial goals, we may deposit our savings in various bank deposits—Savings account, fixed deposit, Recurring deposit account and Term deposit. There are several Government schemes, namely Tax savings scheme, National Savings Certificate (NSC), Public Provident Fund (PPF),Post Office Scheme (POS), Equity Linked Savings Schemes (ELSS), etc.

We can buy Bonds issued by companies, financial institutions or even the Government. The buyer receives interest from the seller and the par value, or face value, of the bond is receivable by the buyer on the maturity date. Market price depends on yield at maturity, prevailing interest rates and rating of the issuer. Par value (also known as face value) of a financial instrument, i.e., monetary contracts, remains fixed at a point set by the issuer and is the price paid by the issuer at the time of maturity. On the contrary, market value of financial instruments (e.g. bonds, shares, stocks) is not fixed, its value changes with time, and is the selling or purchasing price in the secondary market at any chosen moment. Fixed interest debt instruments with varying period of maturity, similar to bonds, are issued by companies. Non-convertible debentures are redeemed by the issuer totally, partly convertible debentures are redeemed partly and a part is converted to equity share and fully convertible debentures are fully converted into equity.

ROLE OF MUTUAL FUND

A mutual fund pools money from money investors and invests the money in stocks, bonds, short-term money market or other securities or assets. The combined holdings that the mutual funds own are known as its portfolio. Each unit represents an investor's proportionate ownership of the fund holdings and of the income those holdings generate. A mutual fund buys and sells large amounts of securities at a time. Transaction costs are lower than what an individual would pay for security transactions. Mutual fund units are convertible into money by way of sale in the market. An open-ended fund runs from/to the asset management company, at the mutual fund offices or their investor service place or through stock exchange. The prices take place in a mutual fund are based on the net asset value of the fund.

Close-ended funds run for a specific period. The units shall be listed on a stock exchange to provide liquidity. Investors buy and sell the units among themselves at the price prevailing in the stock market. Money market funds which are of extremely short-term, generate returns that may not be very high, but the principal is safe. Bonds provide current income on a steady basis and provide a steady cash flow to investors. Equity funds, the largest category of mutual funds invest in shares and stocks. There also have international fund that invests in the equity of the companies outside the country. Index funds replicate the performance of a broad market index such as the SENSEX or NIFTY.

A stock market is a public market for the trading of company shares at an agreed price. The shares are listed and traded on stock exchanges, or stock changes facilitate the buying and selling of stocks. The purpose of a stock exchange is to facilitate the trading of securities between buyers and sellers, thus it essentially provides a market place. In order to invest in shares, it is necessary to understand the term "De-Materialization of shares". Dematerialization is the process by which a client can get physical certificates converted into electronic balances.

ROLE OF SEBI

A depository is an organization which holds securities (like shares, debentures, bonds, Government securities, mutual fund units, etc.) of investors in electronic form. It provides services related to transactions in securities. At present two depositories—National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) are registered with SEBI. A Depository Participant (DP) is an agent of the depository through which it interfaces with the investor and provides depository services. Every investor must open a beneficial owner account to trade in the stock exchange or apply in public issue. To facilitate trading by small investors in physical mode, the stock exchanges provide an additional trading window, which gives a one-time facility for small investors to sell physical shares which are in compulsory demat (Dematerialization) list. Trading window means a trading period for trading in stocks of the company as specified by the company from time to time. The buyer of these shares has to demat such shares before further selling.

The financial product can be purchased through intermediaries, brokers, internets, stock exchanges, and mutual fund companies. The broker must be registered with SEBI (Securities and Exchange Board of India), which was established with the objective of protecting interest of the investors in the securities market. SEBI can issue directions to all intermediaries and other persons associated with the securities market. Stock exchanges have set up an investor protection fund to meet the claims of investors against defaulter members and also assist in arbitration process between members and investors.

CONCLUSION

India has had a long history of savings, investment, and other economic activities. It has changed or evolved to its modern form with the advancement of civilization including technological developments and changed human attitude.

Planned savings can generate a regular income to investors. Moreover, savings and its national level planning are crucial to a country's economic growth and overall development.

Banks and other financial institutions provide easy and secure means of investment. In this regard, Securities and Exchange Board of India (SEBI) with its autonomy and statutory power is largely safeguarding the interests of investors.

Now India is one of the top players in global economy and has already become a country with rapid economic growth and is heading towards becoming a global economic superpower.

ACKNOWLEDGEMENT

We are indebted to Dr. Triptimoy Mondal, Associate Professor, B.B. College, Asansol (Mob-9832194470), Dr. Sentu Mitra, Associate Professor, Viswabharati University (Mob-8768769020), Dr. Buddhadev Chanda, Associate Professor, Genoa College of Commerce (Mob-9434467731), Dr. Jayanta Kumar Nandi, Associate Professor, A.K.P.C. Mahavidyalaya, Bengai, Hooghly (Mob-7001282664), Dr. Paramartha Ghosh, The Principal, A.K.P.C. Mahavidyalaya (Mob-9064718626) for sharing their experience and for their inspiration to finish this article. And also indebted to Professor Sujit Kumar Paul, SACT, A.K.P.C. Mahavidyalaya (Mob-8250722640) and Professor Sujit Pal, SACT, A.K.P.C, Mahavidyalaya (Mob-9933704957) for providing various technical supports in preparing the manuscript. Their blessings helped to move forward writing this article.

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