

1 Money and you



Knowing how to effectively manage your personal finances is a skill everyone should learn before leaving school. Every day people make many decisions that can have an impact on their financial position, well-being and lifestyle. When making a purchase, you are either satisfying a need or a want.

With household debt in Australia at an all time high, many Australian consumers are making poor financial decisions and spending more than they earn. This chapter will give you an understanding of how to manage your personal finances, strategies to spend wisely, the art of budgeting and the importance of managing credit. Remember, you should never spend more than you earn on living expenses, no matter what your income. The following two chapters will help you to understand the importance of saving and investment and how to be an informed consumer.

Household and personal income

Need: any item that is necessary to survive everyday basic life; examples include food, water, shelter, warmth and basic clothing

Want: any item that people desire but which is not essential to everyday living; examples include cable television, mobile phones, holidays

Wages: the money an employee receives from an employer in exchange for the completion of set tasks

Dividends: a payment made to shareholders when a company performs well

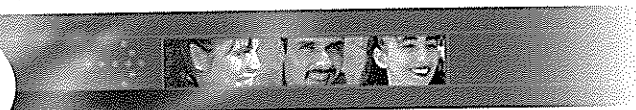
Consumer decisions aren't just made about satisfying needs and wants. These questions need answering:

- ▶ How am I going to earn the income necessary to meet my lifestyle needs?
- ▶ Should I spend or should I save the money earned?

Income

Income can be defined as money received in the form of wages or a salary paid from a job, dividends received from shares owned, interest (earned from money held in the bank), rent from property owned, or government payments.

[1.1] Centrelink administers a range of government payments



Think about the last time you went shopping with your family. Collectively you may have purchased groceries for the household, filled the car up with petrol and bought some medicine from the chemist. No matter what was purchased, all these items cost money. To be able to pay for these purchases, you must have income. Income can be received from a number of different sources. These are summarised in [1.2].

[1.2] Common sources of household income in Australia

Wages/salary: money a person receives from completing paid work. A wage is usually set at an hourly rate and then multiplied by the number of hours worked. In contrast, a salary is earned by an employee in permanent work who is paid an annual amount. For example, a full-time teacher is paid an annual salary. This can also relate to the profits a person may earn from running their own small business.

Government payments: a wide range of welfare payments that can be paid (e.g. unemployment benefits and Austudy). The amount depends on asset and income tests.

Sources of household income

Gifts: money received as a gift from friends or family or if money has been inherited or won as prize money (e.g. on a game show) or as a professional sports person (e.g. a tennis player).

Investment income: such as from a rental property (where a tenant pays the owner rent to live in the property), dividends from shares that are owned (from companies listed on the Australian Stock Exchange) or interest from money deposited in the bank (e.g. in a internet savings account or term deposit).

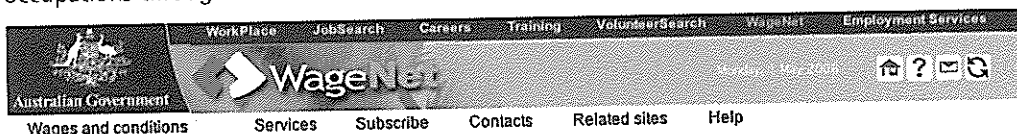
Personal income

At the age of 15, many students take casual jobs and start to earn an income for the first time. There are many sources of income that school students may receive, including from:

- ▶ casual jobs—where students undertake after school work as kitchenhands, shop assistants or in supermarkets
- ▶ odd jobs—where students may undertake occasional babysitting, mowing lawns or washing a person's car in exchange for payment
- ▶ pocket money—some parents pay a weekly allowance (pocket money) that can be used to spend on expenses such as clothing, CDs and magazines
- ▶ Youth Allowance—a government allowance paid to students who are studying full time at school (the amount paid is subject to a means test on family income and household assets)
- ▶ gifts—money received in the form of a gift on a birthday or as a Christmas present.

Means test: used to determine who should receive welfare payments according to a test of an individual's income and personal assets

[1.3] WageNet is a government site providing information on wages for a wide variety of occupations throughout Australia



Learning activities

- 1 a Make a list of all the sources of income you receive at present. Compare this list with other class members. Why do you think the sources of income and the amount received might vary so much from person to person?
b Imagine 10 years into the future. Do you expect the sources of income you currently receive to change? What do you expect to be the main sources of income?
- 2 Go into the Centrelink website at www.centrelink.gov.au. Create a table to summarise the main types of welfare payments the government provides. For many people these payments are their main source of income. What reasons can you give for the government providing a range of welfare payments to various people in the Australian community?

The importance of preparing a budget

Knowing how to prepare a budget is a skill that can help you manage your personal finances. If you decide to start your own business one day, then being able to budget will be essential. A budget lists all expected receipts and payments for a given period of time in advance. It can help you determine whether a budget surplus or budget deficit will occur. A budget surplus is good as receipts (in the form of income) are predicted to be greater than payments. In contrast, a budget deficit is unfavourable as it means payments are expected to be greater than receipts. This will lead to the bank balance going down to pay for the deficit.