

Financial Literacy

Understanding Financial Literacy



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Understanding Financial Literacy – Financial Literacy Overview, Financial Literacy Definition, Define Financial Literacy, What is Financial Literacy, Financial Literacy Meaning, Financial Literacy Benefits, Importance of Financial Literacy, Need of Financial Literacy, Financial Literacy Best Practices

Financial Literacy Overview

Financial literacy refers to financially literate people, financially literate people have the ability to make effective financial decisions in any financial matter. Financial literacy is a good relationship with money.

“Understanding Financial Literacy”

Financial Literacy Definition.

What is Financial Literacy?

Importance of Financial Literacy.

Financial Literacy Best Practices.



Often people look at finance from a slightly different perspective, while it is not that finance is a difficult subject. If you start learning finance from the basic level then it can be an interesting, finance learning journey.

Financial literacy refers to understanding the concept of financial terms. One could get the confidence for taking any such sound financial decision for oneself well-being is the sign of a financially literate person.

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Financial Literacy For Beginners

Simply understand, financial literacy means knowing how to manage

money wisely. We need finance in every walk of life, so finance management is a lifelong journey.

Financial management may vary from person to person but a financial literate is a person who understands the basic financial elements well and use them wisely to manage finances in life.

Beginners can educate themselves to be financially literate, So they can make effective financial decisions in their life in financial matters by understanding the required financial information.

What Is Financial Literacy?

Financial literacy is the ability to manage your financial matters effectively and a relationship with finance is strong enough to fulfill all financial needs of life and also achieve all financial goals using the skills of financial literacy.

Financial literacy refers you have the ability to understand the pros and cons of a financial decision and confidently choose investing, saving, budgeting, loans and awareness of fraudsters.

» **Ready to learn more?** Read our detailed tutorial on [What is Financial Literacy](#) for more detail.

The ability to understand the financial products and concepts to manage money for your future financial well-being is financial literacy.

Financial Literacy Definition

Understanding financial literacy is very important, why am I saying that because if you know the benefits of financial literacy. I am very sure, you want to be financially literate at any cost.

One of my favorite financial literacy definitions is given by Wikipedia. Wikipedia explains financial literacy in very simple words as follows.

“ Financial literacy is the ability to understand finance.”

Click the link below, there we explain the top 8 Industry financial literacy definitions and some of the financial literacy definition is very easy to understand.

» **Ready to learn more?** Read our detailed tutorial on [Financial Literacy Definition](#) for more detail.

Financial Literacy Meaning

Understanding financial literacy is required how money works and how can it work for you, even when you are sleeping.

Financial literacy is the confidence to make decisions about financial matters using the knowledge of financial basics.

Financial literacy meaning is to have the knowledge of budgeting, planning, saving, investing, loans, assets, liabilities and leverages.

Because a lack of financial literacy is responsible for a lack of money management skills along with wrong financial decisions.

Basics of Financial Literacy

Basics of Financial Literacy

What are the basics of financial literacy?

Terms or things that you have to understand to achieve financial literacy are the basics of financial literacy.

To understand financial products and make any financial decision for financial well-being, You have to know the basics of financial terms so you can make decisions confidently.

Importance of budgeting and spending, saving, investing, earning, borrowing and protecting money from fraudsters are the basic components of financial literacy.

5 Key Components of Financial Literacy

Budgeting and spending, saving, earning and investing, borrowing or protecting money are the 5 key components of financial literacy which explain below in short.

1. Budgeting and Spending

Why do we make a budget? The simple answer is it helps us to prevent the waste of our money on unnecessary things.

Budgeting is the process of spending money the way you want to spend it, saving and investing for the future also. Good budgeting can help you to stop financial leaks.

2. Saving

A portion of your income that is not spent on the current expenditures or the money which you keep for your future well

expenditures of the money which you keep for your future well-being is saving.

3. **Earning and Investing**

The income you get from various sources (Jobs, Property, Stock, Bonds) is your earnings, as the more money you earn the more you can invest.

Investing in your knowledge, stocks, property. The question is, What is the need for investing?

When you will get older you can not do the same amount of work that you do when you were young, So you will not get any financial issues in the future investing is very important.

4. **Borrowing**

Borrowing money means you are taking a loan from banks and other entities to make an investment or do some important things.

Borrowing is your liability, It can be good or bad according to your decisions of investment.

5. **Protecting your money**

Today everything is digitalized, Investing in the stock market, your savings bank account details that are the information you need to be protected.

Why is protecting money important this is the technology age and thieves can steal your financial details and money also.

Common Financial Literacy Terms Every Newbie Needs to Know

There are some very important financial terms that newbie needs to know are net income, assets, liabilities, cash flow, interest rate, compounding interests, etc.

Here, we discuss two very important terms assets and liabilities which are best described by Robert T Kiyosaki in his book Rich Dad Poor Dad.

Things with put money in your pockets are assets while things that take out money from your pockets are liabilities.

If you purchase a car, In the first scenario, you give it on rent and you will get some income from it after paying EMI, insurance and maintenance mean it put money in your pocket it is assets.

In the other scenario, you have to spend on petrol, EMI, insurance and maintenance of car by own saving that is liabilities for you.

Importance of Financial Literacy

Why financial literacy is important?

Financial literacy is important because:

1. Financial literacy equips us with the knowledge and skills we need to manage money effectively.
2. Financial literacy allows us to understand and maximize whatever level of income we earn and transform our lives.
3. Finance is the thing that will encompass just about every aspect of our life and financial literacy allows to make us effective financial decisions.
4. Financial literacy teaches us the way that financial systems work and if we learn it at an early age, we take the steps to make a better life for us.

» **Read more:** [Importance of Financial Literacy.](#)

The Benefit of Financial Literacy

There can be a long list of benefits of financial literacy but here we explain it in short. Financial literacy benefits people of all ages group and income levels.

Young people can start making budgeting, saving and investing, Elder people can start to earn more and make sound financial decisions to invest for retirement and term life insurance for the financial well-being of families.

Interested to learn more: Read our full explainer on the [What are the benefits of financial literacy? for more detail.](#)

Financial literacy can help families acquire the discipline to save, invest for their own financial well-being and fulfill their needs.

Example of Financial Literacy

A low-income family start saving from child marriage when she was just born. A middle-class family starts saving and investing for the education of their children.

There are plenty of examples we have but here are two more financial literacy examples below you can click and read, Financial Literacy Examples.

- [Example 1](#)
- [Example 2](#)

What Does It Mean to Be Financially Literate?

A financially literate person is equipped with the ability and skills to manage money effectively, a person who understands finance very well and is confident enough to make the right financial decision based on financial knowledge and experience is a financially literate person.

I did not learn financial literacy in school whereas finance is including every aspect of our life. It is very important to learn about how to make a budget, plan, save, invest, loan, credit and protect money.

Unfortunately, lots of people are financially illiterate in this world because they didn't learn financial literacy in their schools. They are not able to manage their money effectively.

A financially literate person manages money effectively and can make financial decisions for their own financial well-being. It is not tough to be financially literate.

How to Become Financially Literate?

There are some fine steps you need to follow and you will become financially literate soon.

1. The first step to gaining financial literacy is learning how to make a budget. If you have a budget you will spend, save and invest

a budget. If you have a budget you will spend, save and invest everything according to it.

2. Minimize your spending, When you reduce your spending by buying unnecessary items you completed the second step.
3. Understand the power of investing and know-how can your money works for you.
4. Understand the magic of compounding interests in long terms investment.
5. Secure your financial future by saving or investing for retirement.
6. Took advice from financial experts in financial matters.
7. Read and learn financial books.
8. Protect your money from fraudsters, and never share your bank or any other details with an unknown person.

» **Interested to learn more:** [Ways of becoming financially literate.](#)

Why does Financial Literacy matter?

Financial literacy matters for many things, one of the most important benefits of financial learning it makes families financially stronger and one financial literate person makes the whole family financially literate.

Finance is attached to every aspect of life, so in that, without financial literacy, we make all financial decisions in our life are wrong.

Managing your money in an effective way is financial literacy. for every age group and income group managing their money in an effective way matters a lot.

How Does Financial Literacy Affect a

HOW DOES FINANCIAL LITERACY AFFECT A PERSON?

Financial literacy is very important for everyone especially in today's era, Why am I saying that because financial literacy affect a person so much.

There are some financial literacy affect in people life as follow.

1. Financial literacy allows you to make informed financial decisions confidentially.
2. You have trust yourself to do a proper research and analysis before investing.
3. Financially literate people teaches the whole family about financial literacy.
4. Financially literate person manage their money in an effective way.
5. Financially literate person always take care of their own money from fraudsters.
6. Never waste money in unnecessary items.

The Power of Financial Literacy

The ultimate power of financial literacy. we are living in such an era, where money affects every aspect of life. It may be living standards, the necessity of food, education, or hospitals.

Financial literacy increased confidence in you to make informed financial decision. you will trust in yourself that you can avoid going

into debt.

Investing is power of financial literacy and you will be able to do proper analysis of risk and rewards before investing your hard earn money.

» **Interested to read more:** [The power of financial literacy.](#)

Best Financial Literacy Books

Books are the best friend as we hear money times but why successful people said that I understood when I started to read financial literacy books.

Books have the power to open your mind and broad the capacity of your thinking, read and learn financial literacy from these books.



A Chinese Proverb

The famous Chinese proverb boost me to read more and more financial books.

» **Interested to read more financial literacy books:** Here are the top 20 [best financial literacy books.](#)

Financial Literacy For High School

Students

I did not learn financial literacy in school, but now I realize if I learned financial literacy at an early age then I could escape from many wrong financial decisions or manage my fund in an effective way.

I always recommend financial literacy should be started from high school and also parents should be responsible to teach good financial habits to their children from childhood.

» **Ready to learn in detail** read the complete article on Benefit of [Financial Literacy For High School Students](#).

How Do You Teach Children Financial Literacy?

Follow some steps you can teach children about financial literacy.

1. Discuss money matters with children.
2. Split money into categories.
3. Take help from children to prepare monthly budgets
4. Involve your children in major purchasing.
5. Play games with children that involve money.
6. Teach them about money management with real-world examples.

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