



# **INTRODUCTION**

# WHAT IS MONEY AND WHAT IS OUR RELATIONSHIP WITH IT

Money is any good that can be used to make the payments that you need to make. It has a value accepted by economic agents and serves as a measure to set prices according to market value.

## THREE TYPES OF MONEY?

- **Commodity money:** money that can be used as merchandise, as goods that can be used to make payments. These goods have the same value as a monetary unit and as merchandise: they can be salt, gold, silver, precious stones... different goods depending on the culture and historical periods. Commodity money has specific qualities: they must be durable, transformable, divisible, homogeneous and of limited supply.
- **Bank or fiduciary money:** fiduciary money -the paper and currency money we habitually use-, is not backed by any other asset. Its value is based on the trust existing in that money alone. The intrinsic value of paper money and coins is nil, but its value is assured a) by the institutions that issue them, b) the acceptance of this money by the economic authorities as legal tender and resides in the confidence that it will be accepted as a means of payment by other people. Fiduciary money is created by banks and financial institutions, when carrying out their usual credit operations with their clients, it is therefore based on the bank deposit entries. Thus, a bank can grant a loan to a client by making an entry in this client's account for the amount of money lent. The bank has capital from other people's deposits to lend and can grant the loan, as long as it maintains a minimum amount without lending (cash ratio) to guarantee the necessary liquidity for customer requests. This is how bank money is created, since it considers the entries of customers who make their deposits and those who request loans. That money created by the bank through these annotations is what we call bank money.
- **Electronic money:** it is the money that is available to its users in an electronic way, it is not, therefore, physical money. It is an electronically stored money that has a link with the fiduciary currency that supports it, so the funds are expressed in units of that currency. Some examples can be wallet cards, credit and debit cards, PayPal... Many people also use a debit card that is attached to their checking account. Using a debit card means that each purchase you make on it comes directly out of your account. If you spend more than you have, your purchase might be declined or you may be charged fees. Electronic money is not an independent currency, it is supervised by the same central authority that controls the national currency that supports it. Virtual currency such as bitcoin and others do not have fiduciary currency as a unit of account, but rather it is an alternative to it. Bitcoin and the like is digital money like electronic money, but it is an individual, anonymous and decentralized currency, not backed by any official financial institution or specific country or state.

# ABOUT OUR RELATIONSHIP WITH MONEY

It is important to have an objective relationship with money, based on knowledge and calm and thoughtful decision-making. This approach will prevent our emotions, stress or ignorance from dominating our financial decisions, as in the case of impulse purchases, uncontrolled spending or financial plans that rely on lucky breaks. A general recommendation is to always live within your means and do not try to keep up with your co-workers, neighbors, and peers.

If we consider money as a means to lay prudent foundations for our life and our future and we have basic financial knowledge for its management we will be more open to: establishing saving goals, control and creative reduction of expenditure and comparing decisions and products to make better choices for the present and the future.

# THE IMPORTANCE OF KNOWLEDGE AND GOOD FINANCIAL DECISIONS

Financial literacy means the knowledge and skills needed to make important financial decisions. Every day, thousands of people are deciding where to open a bank account, which mortgage to choose, how to save and where to invest their money. When talking about finances, it can be helpful to think in terms of goals. What do you want? Prioritize what is important to you. Following we'll see how budgeting or saving can help reaching our goals.

## TYPES OF FINANCIAL GOALS

Financial goals are targets to aim for when investing and saving your money. These goals can be separated into three different types: short-term financial goals, mid-term financial goals, and long-term financial goals.

- Short-term financial goals take less than a year to complete. For example, saving up for a new cell phone could be a short-term financial goal.
- Mid-term goals can take anywhere from 1 year to 5 years to complete. Saving up for college classes or planning a really nice vacation could be a mid-term goal.
- Long-term financial goals usually take more than 5 years to accomplish. These goals could include things like saving to purchase your first home.

Identifying your short-term goals can help you prioritize them, while still saving for longer-term goals. Your short-term goals may be different than these, but you can still write them down and figure out which are most important to you. Mid-term financial goals may be more expensive, but you have longer to save for them. Narrowing your mid-term goals down can help you put more money toward the ones that are most important to you. Long-term goals can be very expensive, but you have time on your side. Identifying and prioritizing your long-term goals early can help you figure out how much you need to save and how much time you have to do it. That can make you more financially secure throughout your life.

## SETTING SMART GOALS

It's hard to stay motivated to keep money in a saving account when you don't know what specifically you're saving for in the future. Maybe you should start setting some savings goals.

SMART goals are goals that are specific, measurable, attainable, realistic, and time-based. Deciding on goals like these for your savings goals could help you a lot.

Examples of SMART financial goals:

### SMART Goals for 14-20 years

- Set up an emergency fund within 6 months.
- Save up for a large purchase, such as a computer or a new cell phone, within 1 year.
- Save up for a beach trip with friends within 6 months.

### SMART Goals for 20s

- Regularly contribute money from each paycheck to an employer-sponsored retirement plan, and take advantage of the company match feature if available.
- Set aside at least 10,000€ for a down payment over 10 years.
- Pay off credit card bills in full each month.

### SPECIFIC

The first thing you want to do when setting SMART goals is to be specific. This means writing down exactly the things you want to achieve.

EXAMPLE: I want to save 10,000€ for a down payment on a house.

### MEASURABLE

How will you measure your success or progress? Use this to determine a unit of measure to achieve success.

EXAMPLE: I want to save 10,000€ for a down payment on a house within 10 years.

### ATTAINABLE

To achieve your goals, you should make them realistic.

EXAMPLE: I will save money for a down payment by putting aside 83.33€ per month, every month for 10 years.

### REALISTIC

Create goals that are realistic based on your age, income level, and what realistically you can do to accomplish your goals.

EXAMPLE: I will only eat lunch out once a week to save 1,000€ extra per year.

### TIME BASED

Assign a specific timeframe for reaching your goals to keep yourself on track.

EXAMPLE: I want to be a homeowner in 10 years, so I will save 90€ per month for a 10,000€ down payment for a house.



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