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# FINANCE

Project „Levering the Implementation Efficiency in Schools”  
**Teaching Materials**

BA SCHOOL OF BUSINESS AND FINANCE  
Riga, 2014



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The current teaching material contains the explanations of various terms related to Money, Household budgeting, the Income of individuals, Savings, Salary and its calculation, Banking Services, Deposits, Crediting, Financial institutions, Social insurance and Pension system. The manual includes exercises that could assist teachers in developing financial literacy among the youth.

The authors have researched the experience of western countries including Germany, Austria and Belgium in the area of lifelong learning of financial education, their recommendations and the opportunities to apply the results to the case of Latvia.

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## FOREWORD

Dear Teachers!

The current teaching material “Finance” has been designed to assist you in your job working with students of high school in order to develop their knowledge about financial issues.

Teaching material was designed within the international project from 2012 till 2014. Over this period BA School of Business and Finance and Agenskalna State Gymnasium in cooperation with partner organizations located in Germany, Belgium and Austria implemented lifelong learning project “Levering the Implementation Efficiency in Schools” under EU program Action Comenius. The Teaching material was designed to assist teachers working in high schools for the development of financial education, thus increasing understanding of society in financial decision making, their security and sustainability.

Project partners, teachers, school managers and experts from partner organizations who implement the strategy of financial literacy in Latvia took part in the design of the manual. The authors would like to express its gratitude for the interest in the project and for valuable suggestions to promote financial literacy in Latvia:

- Headmaster Inara Gaile, Agenskalna State Gymnasium,
- Chief editor Antra Slava, the Bank of Latvia internet platform “Money School”,
- Project manager Elita Puspure, The Association of Commercial Banks,
- Chief officer Sandra Falka, National Centre for Education,
- Specialist Ieva Upleja, PR Financial and Capital Market Commission.

The authors would like to thank the participating four Riga state gymnasiums and high schools for the opportunity to carry out a trial test of the Material. Our gratitude should also go to the Rector, assistant professor Andris Sarnovics and the Vice Rector for Study Affairs, assistant professor Liga Peiseneice of BA School of Business and Finance for their support during the implementation process of the current manual.

The Material summarizes relevant concepts and their explanations related to money, household budgeting, private income, savings, salary and its calculation, banking services, deposits, crediting, financial institutions, social security and pension system.

The Material contains tasks for teachers which assist them in their practical daily work to develop the understanding of financial issues. The manual structure has been developed taking into account the minimal requirement of knowledge and skills related to financial education of high school students in western countries. Special focus has been paid to relevant changes of national economy of Latvia related to the introduction of the Euro currency and joining the Euro zone. It also took into account normative acts and regulations and the acquired experience to overcome financial crisis.

The Material is aimed at teachers of economics working at high schools, but it could be valuable also to social science, mathematics, informatics, geography and history teachers. The trial test was carried out in the first quarter of 2014 in four Riga gymnasiums and high schools involving 200 high school students studying at 10th, 11th and 12th school year. Knowledge test was carried out at the beginning and at the end of the trial test. After the trial test the improvements were made in the current manual.

The authors advise the teachers to consult the practical assignments offered when they carry out classroom assignments, group work, prepare individual assignments and home tasks as well as for presentations and credit tests of students. The material contains tasks and the key. The manual also provides references to financial information and regulations.

We wish you successful work with high school students in order to develop their financial competence. Only educated youth will be able to understand the financial world and take responsible decisions.

With regards,

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## Theme I - PERSONAL FINANCE AND THEIR DAILY PLANNING

### 1. Personal budgeting and daily consumption

**Private finance** – all financial means in the possession of individual.

**Personal financial management** refers to **financial management** that is carried out by individual or a family in order to make money, balance income and expenditure, make savings spending taking into account various financial risks and life situations in the future.

When undertaking **personal financial planning** an individual should assess the most appropriate **banking services** that are offered (current account, savings account, credit cards, consumer credits etc.) and **investment opportunities** (investment in shares, bonds, investment funds etc.), **insurance products** (life assurance, health insurance, insurance in case of accidents etc.). They also should monitor their **pension plans**, their **social allowances** and **tax payments**.

#### *THE VALUE OF MONEY*

Every individual can benefit from earning more money but at the same time they forget that the most important thing, apart from the amount of money, is its value which has been determined as its **purchasing power** – goods and services, which you can obtain with certain amount of money. Purchasing power means the number of goods and services that could be bought for one unit of money. If the income does not change (for example grant, pension), but the level of prices increase, we observe the decrease of the current purchasing power. The decrease of purchasing power of money is closely linked to inflation. **Inflation** means a rise in prices and the amount of money in circulation, thus money loses its value. Inflation is seen as general price increase in national economy over a definite period of time. The increase of prices in some products does not mean that we face inflation. Inflation means an increase of the price of products included in the purchasing basket. In statistics, consumer price index is used as indicator of inflation.

#### *HOUSEHOLD BUDGETING*

**Personal budget** characterises the financial management of each individual. It is an individual's plan of future income and expenses for a definite period of time. In cases referred to family budget the term “**household budgeting**” is applied. It is a plan or estimate of future income and expenses for a definite period of time.

**Types of household income** could vary:

- Salary;
- Grants;
- Pensions;
- Social allowances;
- Income from lotteries;
- Gifts;
- Income from entrepreneurship;
- Etc.

Similarly, **household expenses** could vary; therefore they are classified into several important groups:

- Food;
- Transport;
- Housing;
- Clothes and shoes;
- Communications;
- Etc.

Generally, income is received on a monthly basis, in the same way people have expenses every month, thus in most cases of household budgeting a calendar month is chosen.

#### *PLANING OF INCOME AND EXPENSES*

In order to plan and monitor income and expenses it is useful to have a **budget**.

According to the research done, people consider themselves psychologically to be by 12% wealthier than in the reality. We do not add to our expenses small costs, for example, costs for magazines etc.

The **budget planning** could be relatively difficult for the first month. The individual has clear information about his or her income; however, it is rather difficult to state his or her expenses. It is advisable to write down all expenses in order to get precise information. You could register all receipts in the column of expenses. Budgeting is a time consuming process, however, it is the way to analyse expenses, carry out the needs analyses and making savings. If budgeting is done regularly, its administration becomes easier in the following months.

Budget could be:

- a) **With surplus** – income exceeds expenses;
- b) **Balanced** – income and expenses are equal;
- c) **With deficit** – planned expenses exceed income.

If planned expenses exceed income, you should choose which position of expenses is to be reduced or you should look for alternative sources of income. It is vital to be aware of the need to cover urgent expenses which cannot be avoided.

Depending on the situation, in general we faced the following urgent payments:

- Utility bills;
- Expenses for telephone;
- Internet costs;
- TV cabel costs;
- Credits;
- Costs for school lunch;
- Transport costs;
- Etc.

Over the period of time it is possible to reduce urgent expenses for example:

- By assessing offers of TV, telephone and internet providers;
- By analysing personal transport costs;
- Etc.

These are the costs that individuals become aware of in the case of budget with the deficit. Timely budgeting provides the opportunity to have a balanced budget or even with surplus.

The **planning of income and expenses** is useful for making savings. Research indicates that individuals face psychological difficulties to save money just because of savings. A more **successful way to manage savings is to have a clear aim**. In those cases savings do not seem pointless or difficult; because you have set a clear aim and your saved money has been divided into smaller parts.

- 
- *Additional information can be accessed in the following internet sites:*

Manual of Financial knowledge	<a href="http://www.nordea.com/sitemod/upload/root/www.nordea.lv%20-%20lv/bankas_vadiba/Nordea_Finansu_rokasgramta_parvaldisana_final_13.pdf">http://www.nordea.com/sitemod/upload/root/www.nordea.lv%20-%20lv/bankas_vadiba/Nordea_Finansu_rokasgramta_parvaldisana_final_13.pdf</a>
<i>IQ test in Finance</i>	<a href="http://www.nordea.lv/par+nordea/par+nordea/naudas+skola/1626422.html">http://www.nordea.lv/par+nordea/par+nordea/naudas+skola/1626422.html</a>

- *Various useful MS Excel forms for private and household budgeting:*

“BUDGET”	<a href="http://office.microsoft.com/lv-lv/templates/results.aspx?qu=bud%C5%BEets&amp;queryid=0655d2f5-a04e-435d-9648-5458cda31107">http://office.microsoft.com/lv-lv/templates/results.aspx?qu=bud%C5%BEets&amp;queryid=0655d2f5-a04e-435d-9648-5458cda31107</a>
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- *Programs offered for private budgeting are available on internet sites of various finance institutions, for example:*

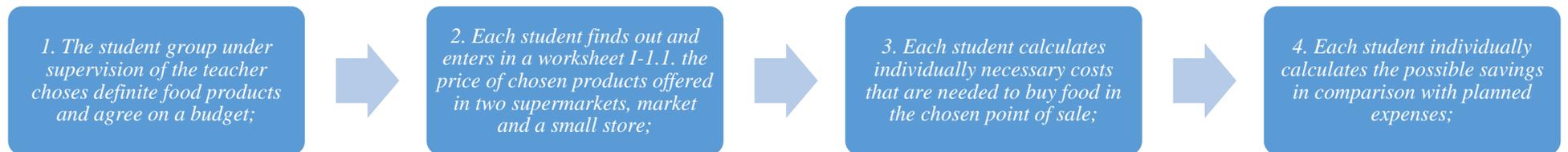
- [www.finansuplanotajs.lv](http://www.finansuplanotajs.lv)
- <http://www.seb.lv/lv/private/services/calculators/family-budget/>

## I-1.1. assignment „PRICE ANALYSIS”

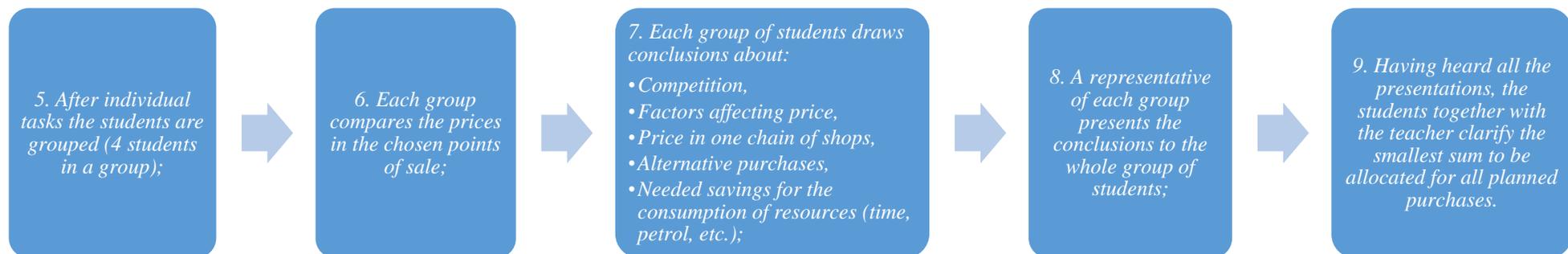
In accordance with statistical data provided by Central Statistical bureau, in 201[...] household costs for food and non-alcoholic beverages constitute on average [...] % from total household budget. This is the most important group of expenses, therefore in order to improve the economical situation of the household it is relevant to plan shopping for food, evaluate and choose economical offers (relevant data is available: <http://www.csb.gov.lv/statistikas-temas/majsaimniecibu-budzets-galvenie-raditaji-30312.html>).

**A shopping list of the selected products should be entered in the worksheet I-1.1. The costs for these purchases<sup>1</sup> are envisaged [...] EUR, however, you can do it cheaper and by making savings.**

*! Instruction for tasks:*



*! In order to do the tasks the students work both in the classroom and carry out extra activities outside school, they visit shopping sites. To succeed with the tasks students can use information gained also from home pages of retail companies.*



<sup>1</sup> Definite product groups and planned sums can be chosen in agreement with the teacher and students





## I-1.2. assignment „PERSONAL BUDGET”

The student Santa shared information about her last week’s finances: her parents gave her pocket money 20 EUR. She bought mascara and paid 7 EUR. The grandmother as a birthday present gave her 20 EUR, her parents covered the trip to Stockholm for 90 EUR. Santa had to make a monthly payment of 30 EUR for her dancing classes. This money was given by her parents. Santa has paid 20 EUR for her lunch this week. At the weekend Santa and Gatis went to the pictures, Gatis paid 8 EUR for Santa’s ticket and 4 EUR for popcorn and a bottle of soft drink.

### 1. Taking into account the information, design and evaluate Santa’s budget for the last week!

INCOME				EXPENSES			
No.	Position	Sum EUR	% of total	No.	Position	Sum EUR	% of total
<b>Total:</b>				<b>Total:</b>			
With Surplus _____EUR				Balanced/ Deficit _____EUR			

### 2. Evaluate and provide suggestions for Santa’s budget:

- a) Which positions expressed in percentage constitute the highest costs?
- b) What is the percentage of Santa’s total expenses classified as compulsory payments? Identify them!
- c) Where could she save money (provide the position and percentage)?
- d) If income exceeds expenses of an individual, is it advisable to start savings? Why?

## I-1.3. assignment „HOUSEHOLD BUDGET”

Net salary after tax deductions in Latvia constituted 508 EUR in 2013.

Johnson’s family consists of two students who go to school. Both parents are employed. One of the parents receives the average net salary; the other parent receives by 14% higher salary. The family receives a child benefit of 11 EUR per month.

1. Calculate total income of the family for a monthly consumption!
2. Using statistical data from the table, calculate and enter the available sum of money per month for each position for this family:

<i>Composition and structure of consumption expenditure (on average per household member monthly) <sup>1</sup></i>			
<i>All households</i>	<i>2013.g., euro</i>	<i>2013.g., %</i>	<i>2013.g. over 2012.g., %</i>
<i>Consumption expenditure</i>	<i>300.72</i>	<i>100</i>	<i>106.7</i>
<i>Food and non-alcoholic beverages</i>	<i>84.84</i>	<i>28.2</i>	<i>107.4</i>
<i>Alcoholic beverages, tobacco</i>	<i>9.99</i>	<i>3.3</i>	<i>107.8</i>
<i>Clothing and footwear</i>	<i>17.41</i>	<i>5.8</i>	<i>120.2</i>
<i>Housing, water, electricity, gas and other fuels</i>	<i>49.52</i>	<i>16.5</i>	<i>104.5</i>
<i>Furnishings, household equipment and routine maintenance of the house</i>	<i>12.72</i>	<i>4.2</i>	<i>109.9</i>
<i>Health</i>	<i>18.50</i>	<i>6.2</i>	<i>110.5</i>
<i>Transport</i>	<i>39.55</i>	<i>13.2</i>	<i>99.5</i>
<i>Communications</i>	<i>12.70</i>	<i>4.2</i>	<i>96.4</i>
<i>Recreation and culture</i>	<i>21.21</i>	<i>7.1</i>	<i>112.8</i>
<i>Education</i>	<i>4.31</i>	<i>1.4</i>	<i>93.4</i>
<i>Hotels, cafes and Restaurants</i>	<i>13.14</i>	<i>4.4</i>	<i>103.3</i>
<i>Miscellaneous goods and services</i>	<i>16.82</i>	<i>5.6</i>	<i>116.4</i>

<i>Johnson’s Family</i>	<i>2013.g., EUR per month</i>	<i>2013.g., EUR per day (a month consists of 30 days)</i>
<b>Consumption expenditure</b>		
Food and non-alcoholic beverages		
Alcoholic beverages, tobacco		
Clothing and footwear		
Housing, water, electricity, gas and other fuels		
Furnishings, household equipment and routine maintenance of the house		
Health		
Transport		
Communications		
Recreation and culture		
Education		
Hotels, cafes and Restaurants		
Miscellaneous goods and services		

<sup>1</sup> Refelvant data is available: <http://www.csb.gov.lv/statistikas-temas/metodologija/majsaimniecibu-budzets-un-paterina-izdevumi-36825.html>

**3. Provide the answers to the following questions:**

- a) Indicate which expenditures are reflected under column „Miscellaneous goods and services”?
- b) Half of their expenditure under reflected miscellaneous goods and services the family provides to children as a pocket money. Calculate the pocket money for each of the child for every day assuming that per month there are 20 working days.
- c) A weekly pocket money for each child is \_\_\_\_\_ EUR.

<i>Calculations:</i>	<i>Answers provided:</i>
A large grid of graph paper for calculations, consisting of approximately 20 columns and 30 rows of small squares.	A large empty rectangular area for providing answers, matching the width of the grid.

### I-1.4. assignment „MAKING SAVINGS”

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*Let us assume that you want to buy a tablet PC. You need to evaluate your personal financial budget.*

**Provide the answers to the following questions:**

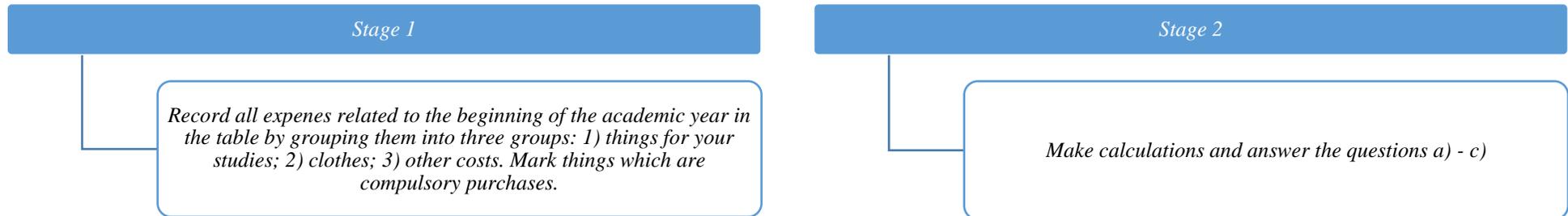
- a) How will change the structure of your pocket money if you decide to buy a tablet PC?
- b) How much can you save per week?
- c) Your selected tablet costs \_\_\_\_\_EUR. Taking into account your weekly savings, how much time will you need to buy this product?
- d) What could be your legal income, so that you can buy earlier than calculated before? (You cannot borrow more money from your parents).

<i>Calculations:</i>	<i>Answers provided:</i>
	

### I-1.5. assignment „EXPENSES AT THE BEGINNING OF THE ACADEMIC YEAR”

- 1. Record and analyse the costs at the beginning of the academic year by classifying them into groups of expenses! Under the expenses you should include not only direct costs for stationary, but also indirect costs spent on clothes, shoes and a handbag etc.**

*! Instructions for the task:*



<i>Expenses</i>	<i>Sum EUR</i>	<i>% from total costs at the beginning of the academic year</i>
<b>Goods needed for studies:</b>		
<b>Clothes:</b>		
<b>Other costs:</b>		

**2. Calculate and provide the answers to the following questions :**

- a) What is the distribution in percentages between groups of expenses at the beginning of the academic year?
- b) What is the percentage spent on compulsory goods?
- c) What is the percentage of these costs out of total monthly family budget? (In order to calculate you need to calculate a monthly household budget).

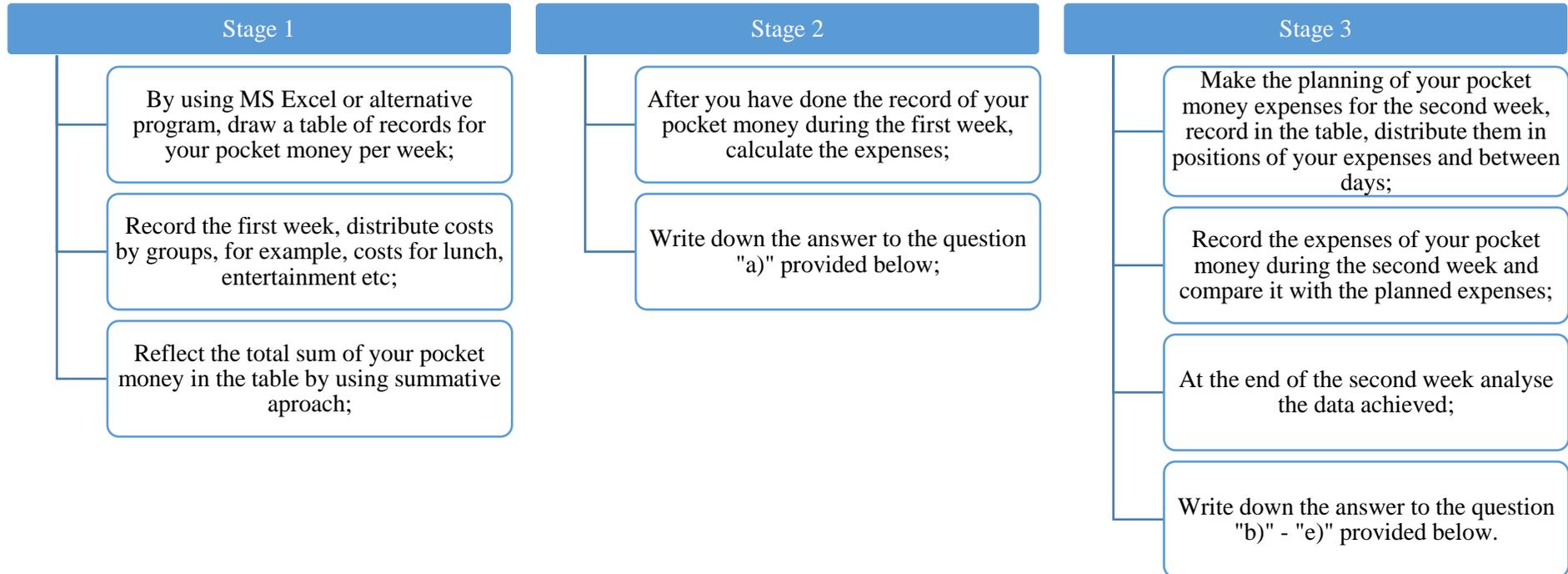
*Calculations:*

*Answers provided:*

A large grid of graph paper for calculations, consisting of 20 columns and 25 rows of small squares.A large empty rectangular box for providing answers, with a dotted border.

## I-1.6. assignment „FORMATION AND ANALYSIS OF PERSONAL BUDGET”

### 1. Carry out the tasks following all the stages! To do the task you need two weeks.



### 2. Provide the answers to the following questions:

- Evaluate the use of a pocket money. Do you need to change the structure of expenses?
- Are there any discrepancies between planned and real use of pocket money? How much?
- What are the reasons for these discrepancies?
- Which costs were unpredictable? What is the percentage (%)?
- Would you plan your pocket money in a different way before the last week? Why?

## 2. SAVINGS AND BORROWINGS, PRICE OF MONEY, INTEREST RATE

**Savings** and **borrowings** are linked with income and the volume of consumption. You can make savings if you spend less than your income; however you need to borrow when your outgoings exceed your income. Borrowing is a service for which you need to pay because you use money belonging to somebody else during a particular period of time.

Payment to be made because of the money belonging to somebody else or the price of money is called **interest rate**. The price and the amount of money to be borrowed is closely linked. The higher is the interest rate for your borrowing, the less borrowing you can make. An important factor is also time, security and some other aspects. For example, the application for a banking credit is a time-consuming process, because you need to comply with regulation as well as you need to prove your legal income. Fast loans are much easier to arrange, therefore the interest rate of those borrowings is much higher.

- *Additional information is available on the following:*

<b>RESPONSIBLE BORROWINGS</b>	<a href="http://www.ptac.gov.lv/page/446">http://www.ptac.gov.lv/page/446</a>
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It is advisable for private individuals to make **savings at least within the amount of three month outgoings**. In case of the loss of your source of income, for example, loss of your job, the savings at the amount of three month could help to retain the current level of life, besides you can adapt to the new situation by searching for a new source of income. In order to make bigger purchases, it is a good idea to have significant savings, this would allow buying things for example during sales period and the price of your acquisitions will not increase even if you buy on credit or interest rate. Moreover, you can make savings in cash or in your money box keeping it in a safe box at home or in the bank; however it is more profitable to place deposits in commercial banks.

### DEPOSITS

**Deposit** means that you place money in a bank account for a definite period of time, provided your account earns interest. Deposits are one of the safest and the most widely used types of savings – when you place your money in a deposit for certain time you know in advance the sum of money to be paid to your account and the maturity date. Due to its high security level, they are the most profitable types of savings.

**Short term deposits** are typical deposits placed in a bank up to one year, in such cases the principle and the percentage is being paid in accordance with the agreement at the end of the term. People can open savings accounts. They provide the opportunity to withdraw the principle and the percentage within one week.

**Long term deposits** are typical deposits placed in a bank that exceed one year. Long term deposits envisage different interest rates (during the savings agreement arrangement; monthly; at the end of the year or at the end of the term). In case of the breach of the contract before the maturity date, you have to pay the fine.

In accordance with the Law of Crediting, the following **types of savings can be distinguished**:

- a) **Savings accounts** or savings of legal entities and private individuals for an indefinite period of time to be paid out on request.
- b) **Term deposits or classical deposits.** Term deposits which are placed for an indefinite period of time allow receiving the earned interest from the final date of your agreement. The application to withdraw the savings should be handed in ten days before its withdrawal.<sup>3</sup>

There is also a **structural deposit**. It is the type of term deposit that provides the opportunity to place money in a bank and to earn more than classical deposits. Interest earned from your deposit depends on stock exchange index, securities or currency rates that are linked to profit of savings.

When placing your money in a bank, you have to take into account that the shorter your term of your deposit, the lower is monthly and yearly interest rate. Structural deposits involve higher risks than classical deposits, but savings accounts have the lowest interest rate. Commercial banks offer the best types of deposits, for example Easter or Christmas deposits. Deposits placed through internet bank as a rule have higher interest rates. The **deposit with interest capitalization** envisages the accrued interest both on principle and on the interest earned.

When you place money in a deposit account, **deposit is only the way to keep the purchasing power**, but not to make a profit, as the annual rate in deposits of commercial banks do not exceed two percent. Income of legal and private individuals from deposits (from earned interest) is levied with a ten percent tax. This amount is paid at the time of placing your money in a deposit.

If you place money in a **savings account**, you can withdraw it after seven days if you request it from the bank in the written form. This ensures that you do not make outright costs and allows you to make thoughtful purchases.

**To calculate profitability of savings we apply two formulas:**

$$N = s (1+in) - \text{simple interest rate method}$$

$$N = s (1+i)^n - \text{compounded interest rate method}$$

*N – A bank savings final value,  
s – A bank savings initial sum,  
i – Interest rate per period,  
n – Number of periods.*

*Note: “i” un “n” should be on the same scale!*

When using consolidated interest rate method, you need to take into account that “n” indicates the number of conversion periods and “i” indicates decimal number in one conversion period. In each calculation number should be rounded up to two numbers after a point, taking into account the condition that the third figure after the point is 0;1;2;3 or 4 (you round down), if the third figure after the point is 5;6;7;8 or 9, you round upward.

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<sup>3</sup> “Low on Crediting”, available: <http://likumi.lv/doc.php?id=37426> (consulted 2014.gada 1.augustā)

The difference between methods is that using **simple interest rate method**, the sum of your deposit is being calculated only at the end of the term, but when using **compounded interest method**, the value of your deposit is being calculated at the end of conversion period and we assume that the result makes the sum of the next term. As a result, interests earn interest, thus the sum at the end of the deposit increases. In general, employees of commercial banks do not explain consolidated interest rate and its advantages, therefore when opening a deposit account it is advisable to select a **savings account with interest capitalization**. Such type deposit envisages the calculation of interest to principle, as well as to earned interest.

To get higher profitability from deposits you need to compare the offer of different financial institutions, by calculating **annual interest rate**, as it is indicated in the interest rate, you will know the sum of your earnings from your deposit, as well as the most profitable type of deposit.

- *Example:*

*In bank „X” and in bank „Y” you place 300 EUR for two years. In both banks annual interest rate is 8%. Bank „Y” applies consolidated interest rate with a conversion period of six month. To get the value of your deposit of each bank, you need to calculate:*

1) *Bank „X”*  
$$N = 300 (1 + 0,08 \times 2)$$
$$N = 348 \text{ EUR}$$

2) *Bank „Y”*  
$$N = 300 (1 + 0,04)^4$$
$$N = 350 \text{ EUR}$$

If output data (sum, annual interest rate and the term of deposit) is equal, then the final value of your deposit will be higher than for consolidated interest rate, in fact it is beneficial for individual who places the money in the bank deposit.

If you do not have savings and outgoings exceed income, in order to cover your costs you need to borrow money. Money that you borrow is called **credit** and the payment of its usage is **interest**. The source of borrowings can be relatives, friends, banks, fast loans institutions, etc. When selecting the partner for credit agreement, the borrower needs to pay the attention to **annual interest rate**, as it indicates the costs of the credit.

The formula below shows the calculations for the total sum of credit (principal and interest):

$$\mathbf{K = S (1+i)^n},$$

*K – Total sum of credit,  
s – Initial sum of the borrowings,  
i – Interest rate during the period,  
n – The number of terms.*

## I-2.1. assignment “MAKING SAVINGS”

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*In accordance with the survey about savings in Baltic countries, carried out in 2013, 41% of respondents make savings. More information about the survey is available: [http://www.slideshare.net/SEB\\_Latvia/seb-banka-kam-un-k-uzkrj-baltijas-valstu-iedzvojti](http://www.slideshare.net/SEB_Latvia/seb-banka-kam-un-k-uzkrj-baltijas-valstu-iedzvojti)*

**Provide the answers to the following questions and fill the table:**

- a) Do you agree on saving money? Why?
- b) Where and how is it possible to save money?

*Answer provided:*

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- c) Select two types of savings. Provide advantages and disadvantages:

	<i>Type of Savings:</i> <input type="text"/>	<i>Type of Savings:</i> <input type="text"/>
<i>Advantages</i>		
<i>Disadvantages</i>		

## I-2.2. assignment “CREDIT AGREEMENT”

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Due to its legal requirements, the agreement is not provided, thus assignment is not translated.















I-2.10. assignment „COSTS FOR STUDIES IN THE FUTURE”

**1. Compare at least three Latvian and/or foreign universities or study programmes of professional colleges tuition fees in your selected profession. Fill the table!**

No.	Study programme, university	Tuition fee per year, EUR	Tuition fee per program EUR

**2. Calculate costs for your selected study program in case of placing savings in a bank account. Answer the questions:**

- a) What is the sum to be saved?
- b) How many months do you have for the start of the academic year?
- c) How much money do you need to save per month to cover the tuition fee for the first academic year?
- d) How much money do you need to save per month to cover the tuition fee for the whole study period?

**3. Calculate your credit repayments under state guaranteed credit agreement. Answer the questions:**

- e) What is the sum of the borrowing for your loan?
- f) How much do you need to pay to the bank as interest rate? If the interest rate on the borrowing per year is 5%? What is the period of time?
- g) What is a monthly credit payment to the bank for your borrowing?
- h) How many month do you need to pay back the loan (assume sum should be less than 1400 EUR, to be paid within 5 years, the sum exceeds 1400 EUR within 10 years).

Calculation:	Answers provided:
<div style="border: 1px dotted gray; width: 100%; height: 100%;"></div>	

I-2.11. assignment „THE MOST BENEFICIAL SELECTION FROM THE OFFER”

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**1. Find out three schools offering studies for obtaining a driving licence; compare them and fill in the table.**

	<i>School No.1</i>	<i>School No.2</i>	<i>School No.3</i>
Timetable			
Time needed to obtain a driving licence			
Study material, resources in internet			
Costs:			
- Documents to be arranged			
- Acquisition of theory			
- Driving lessons			
- Training to provide first aid			
- Medical certificates			
- Other services			

**2. Answer the following questions!**

- a) Which driving school offers the best timetable?
- b) Which offer is the most economical to obtain the driving licence?
- c) Which offer is the most suitable to you? Why? Which factors: time, length of studies or costs can influence your decision? Which factors are the most important?

*Answers provided:*

### 3. SALARY, CALCULATION OF PAYROLL, EMPLOYER COSTS

**Salary is remuneration**, received by employees who are on a regular payroll. Types of payroll, their calculation and related income tax or allowances are determined by the legislation of every country.

Salary is paid to the employee by the employer. Employers should comply with the regulations to sign a written agreement with employees about their job relations which is called a **Contract of Employment**.

It is the duty of an employer to pay a salary twice a month (in case the employee and employer have signed a different agreement related to salary payment once a month). Employees have the right to request the advance payment.

**Payroll** could include the following:

- Salary;
- Additional remuneration for working shifts overtime and holidays, etc.
- Additional remuneration that involves risks;
- Bonus;
- Other types of remuneration related to the job.

Employees who are **under the age of 18** receive remuneration that must not be lower than a minimum wage determined by the Cabinet of Ministers. Teenagers are not allowed to work more than 7 hours per day or more than 35 hours per week.<sup>1</sup>

There are two types of employers in Latvia:

1. **Employers working in the private sector.** This consists of commercial organizations with state or local government capital up to 50%, all commercial organizations without state or local government capital, sole traders as well as employees employed in farming and fishery sector above 50 employees and more.<sup>2</sup>
2. **Public sector.** This consists of state and local government institutions, there commercial organizations, commercial organizations with state or local capital of 50% and more, foundations, societies and funds.<sup>3</sup>

There are several **types of salary**:

1. **Salary** is calculated in accordance with the working time irrespectively of the amount of amount of work done;
2. **Wage** –depends on the amount of work done per time unit.<sup>4</sup>

A minimum wage is determined by the legislation of the Cabinet of Ministers of the Republic of Latvia. It sets **the minimum threshold**.

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<sup>1</sup> “Labour law”, available: <http://likumi.lv/doc.php?id=26019> (consulted August 1, 2014)

<sup>2</sup> Central Statistical Bureau of Republic of Latvia. “Private Sector”, available: <http://www.csb.gov.lv/statistikas-temas/termini/privatais-sektors-35225.html> (consulted August 1, 2014)

<sup>3</sup> Central Statistical Bureau of Republic of Latvia. “Private Sector”, available: <http://www.csb.gov.lv/statistikas-temas/termini/sabiedriskais-sektors-35224.html> (consulted August 1, 2014)

<sup>4</sup> “Labour law”, available: <http://likumi.lv/doc.php?id=26019> (consulted August 1, 2014)

Since January 2014 a **minimum wage in Latvia is 320 EUR** and a minimum wage per hour is 1,933 EUR.

People between the age 14 and 18 as well as employees who are exposed to risks receive a **minimum wage per hour 2,209 EUR**, according to the Labour Law they are allowed to work 7 hours a day and 35 hours a week.<sup>1</sup>

**Remuneration is linked to different taxes:**

- Taxes that refer to employer;
- Taxes that refer to employee.

**Employers are compiled to settle** State Social Insurance Contributions. On a daily basis it is referred as employers tax.

The employer also is responsible for making duty payments related to risks. The employer pays the risk duty for each employee who has the contract of employment. This payment should be settled until the 15<sup>th</sup> date of the next month.

**Employees are responsible for the following tax payments:**

- 1) State Social Insurance Contributions;
- 2) Income Tax.

The sum of salary stated in the contract of employment represents a **gross salary**. A gross salary does not include employer's tax. Taxes are deducted from gross salary earnings before tax or a gross salary depends on tariffs, rates or earnings before tax.

All taxes are deducted from the employee's salary. The employer transfers taxes to state revenue institutions.

There are the following **regularities between gross and net salary:**

- **Gross salary > net salary;**
- **Gross salary - taxes = net salary;**
- **Gross salary + social tax paid by the employer + risk duty = employers costs, when employing employees.**

In order to make remuneration you have to know various allowances that refer to an employee:

- **Non-taxable minimum wage** – Cabinet of Ministers of Republic of Latvia regulates this norm;
- **Allowances for dependents**, for example, children, members of family who do not have any income;
- **Disability allowance.**

These allowances are not levied on tax. **Allowances increase a gross salary.**

Entries about tax relief are made in a payroll tax booklet. From 1 June it is done electronically, by using data available in reporting of State Revenue System.

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<sup>1</sup> 27.08.2013 Cabinet of Ministers of Republic of Latvia Regulation No.665, available: <http://likumi.lv/doc.php?id=26019> (consalted August 1, 2014)

**The standard of life** is directly reflected in a regular salary. Salary shows the amount of goods and services that you can obtain with your net salary provided there is definite price level.

In order to calculate salary, five indicators must be taken into account:

1. Social tax paid by the employer and the employee;
2. Income tax;
3. Non-taxable minimum;
4. Allowance for dependent;
5. Risk duty.

In order to calculate the salary to be paid to, the employee the employer in calculation should take into account the following:

1. All calculations are done from gross salary;
2. The first to be deducted is employer social tax;
3. From the rest of the sum the income tax is deducted;
4. The costs of the employer are calculated in the following way: to the gross salary in addition Social tax that is paid by the employer is added, in addition to that sum, risk duty is added.

• *Examples:*

*Gross salary of employee is 400 EUR in 2014.*

- *employer Social tax 23.59% and employee Social tax 10,5%*
- *income tax 24%*
- *Non-taxable minimum 75 EUR*
- *Allowance for maintenance 165 EUR*
- *Risk Duty 0,36 EU*

*The employer is entered in an electronic payroll tax Booklet, there is not any dependent.*

- *The calculation of employer social tax:  $400,00 \times 0,105 = 42,00$  EUR*
- *What is the sum from which income tax is deducted?  $400,00 - 42,00 - 75,00 = 283,00$  EUR*
- *Income tax calculation:  $283,00 \times 0,24 = 67,92$  EUR*
- *Net salary:  $400,00 - 42,00 - 67,92 = 290,08$  EUR*

*The employer is entered in an electronic payroll tax Booklet, there are two dependents.*

- *The calculation of employer social tax:  $400,00 \times 0,105 = 42,00$  EUR*
- *What is the sum from which income tax is deducted?  $400,00 - 42,00 - 2 \times 165,00 = 28,00$  EUR*
- *Income tax calculation:  $28,00 \times 0,24 = 6,72$  EUR*
- *Net salary:  $400,00 - 42,00 - 6,72 = 351,28$  EUR*

*The employer is not entered in an electronic payroll tax Booklet*

*The calculation of employer social tax:  $400,00 \times 0,105 = 42,00$  EUR*

- *Income tax is calculated from the rest of the sum:  $400,00 - 42,00 = 358,00$*
- *Income tax calculation:  $358,00 \times 0,24 = 85,92$  EUR*
- *Net salary:  $400,00 - 42,00 - 85,92 = 272,08$  EUR*

*Employer costs in all cases are the same:*

- *Employer social tax:  $400,00 \times 0,2359 = 94,36$  EUR*
- *Employer total costs of risk duty:  $400,00 + 94,36 + 0,36 = 494,72$  EUR*

*Conclusion: Net salary per month increases by 18EUR (75,00 x 0,24). If the employee works without payroll tax booklet and gross salary does not increase, employee net salary increases by 39,60 EUR (165,00 x 0,24), because of dependents.*

- *Additional information is available:*

SALARY CALCULATOR	<a href="http://www.vid.lv/lv/kalkulatori/algu_kalkulators">http://www.vid.lv/lv/kalkulatori/algu_kalkulators</a>
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### ANNUAL INCOME DECLARATION

Each income tax payer can fill in the form of **annual income declaration** at the State Revenue Office. It allows getting a **tax rebate**:

- Working relations do not refer to a full calendar month;
- Employee has been absent all working days, he handed in a sick pay leave to employer;
- Tax payer has no right to claim tax relief because of dependent or there are costs for services the employee can claim a tax rebate;
- Tax rebate is regulated by the Cabinet of Ministry of the Republic of Latvia (No. 568 and No.336).
- Costs of family members for qualification, education, medical service, health insurance are regulated by the law.

- *Annual income declaration forms are available:*

Annual Income Declaration forms	<a href="https://www.vid.gov.lv/default.aspx?tabid=8&amp;id=6785&amp;hl=1">https://www.vid.gov.lv/default.aspx?tabid=8&amp;id=6785&amp;hl=1</a>
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“D”, “D1” and “D4” most often are filled out.

Annual income tax you can hand in for three years. It is advisable to choose the electronical form. The employee should add receipts of service received. Consultations are available at the State Revenue Office customer service.

- *Example:*

*In a fiscal year 2014 income tax is deducted 1700,00 EUR (Luisa, 43 years, full income tax rates). Between March 1 and May 31 Luisa was registred as unemployed. She has a son Jakob, dependent. Receipts ar handed in State Revenue Office:*

- *Language courses for Luisa 130 EUR;*
- *Her stay at a days hospital (a higher comfort ward) 60 EUR;*
- *Dental sevice 50 EUR;*
- *Donation at donation internet site 20 EUR;*
- *Patient’s contribution for Jakob 2 EUR;*
- *Tuition fee for Jakob for univercity 200 EUR.*

*Key:*

*Luisa can claim a tax rebate (income tax 24%, relief for a dependent is 165,00 EUR, non-taxable minimum is 235,00 EUR), Luisa was unemployed for three month, she can claim back income tax for a dependent and non-taxable minimum  $165 + 235 = 400 \times 0,24 = 96,00$  EUR per month (for three month - 288,00 EUR. Eligible*

Luisa's costs - 260 EUR (income tax 62,40 EUR), eligible costs for Jakob - 202,00 EUR (income tax 48,48 EUR). Total tax rebate claimed -  $288 + 62,40 + 48,48 = 398,88$  EUR

- Additional information is available:

<i>Tax Policy in Latvia</i>	<a href="http://fm.gov.lv/lv/sadalas/nodoklu_politika/nodoklu_un_nodevu_sistema_latvija/">http://fm.gov.lv/lv/sadalas/nodoklu_politika/nodoklu_un_nodevu_sistema_latvija/</a>
<i>For Employees</i>	<a href="http://www.lm.gov.lv/text/52">http://www.lm.gov.lv/text/52</a>

### I-3.1. assignment „TYPES OF SALARY”

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**Determine which type of payment would be most suitable for the following jobs:**

- a) A full time local council member;
- b) Consultations of a lawyer;
- c) Craftsmanship (folk costumes, jewellery; etc.) tailor made;
- d) Packaging of gingerbread for a Christmas market. The job is done by students. The pace of each student to do the job is not known;
- e) Repairs in the kitchen of the household;
- f) A full time office employee;
- g) Assistant for picking molluscs on a farm in summer.

*Answers provided:*





### I-3.4. assignment „THE ANNUAL INCOME STATEMENT”

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John handed in his annual income statement supplying documents of costs:

No	Costs for vaccination	20 EUR
1.	Training courses in accountancy	180 EUR
2.	Dental hygienist	30 EUR
3.	Payments in Bas’s third level of pension fund	240 EUR
4.	Family trip abroad	430 EUR
5.	Services at the local surgery (three receipts)	16 EUR
6.	Dental services for his colleague	40 EUR
7.	Dental services to Bas’s wife	70 EUR
8.	Charity to the kindergarten	50 EUR

During the fiscal year John one month was unemployed. He has two dependents – a wife and a daughter. The annual income tax is 3070 EUR

**Calculate how much John can claim a tax rebate from the income statement. Show the process of calculation.**

*! For calculation use income statement forms available in:  
<https://www.vid.gov.lv/default.aspx?tabid=8&id=39&hl=1>*

Calculations:

Grid area for calculations.
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## TEST 1 „PERSONAL FINANCE AND DAILY FINANCIAL BUDGETING”

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**Answer the following questions. Choose from the options provided and enter your choice in the table.**

*! Note: Each question has one correct answer*

No.	Question	Write the answer!
1.	<b>Which is the balanced budget?</b> A: Income exceeds expenses; B: Expenses exceed income; C: Income equals expenses; D: 10% from income you allocate to savings.	<input type="text"/>
2.	<b>Personal budgeting is not directly influenced by:</b> A: Changes in income tax rate; B: Export increase for state timber; C: A child birth; D: Loss of a job.	<input type="text"/>
3.	<b>Which forms are the main in the structure of an average Latvian household?</b> A: Costs on housing; B: Fare costs; C: Costs on shoes and clothes; D: Costs on food.	<input type="text"/>
4.	<b>Which factor indicates the improvement of living standard of each household?</b> A: The decrease of costs on food; B: The increase of income tax; C: The increase in costs on food; D: The increase in fast loans.	<input type="text"/>
5.	<b>When can you have a monthly budget with the surplus?</b> A: For a household; B: For a company; C: For a state; D: Correct answers A; B; C.	<input type="text"/>
6.	<b>Steve borrowed 100 EUR. The next half of a year his monthly payment is 25 EUR. What are the costs of this borrowing?</b> A: 20.00 EUR; B: 50.00 EUR; C: 100.00 EUR; D: 150.00 EUR.	<input type="text"/>

<b>7.</b>	<b>Selecting finance service provider for savings, the customer needs to decide:</b> A: To withdraw money if needed; B: Annual interest rate is the lowest; C: Communication with saving service provider is possible on phone, electronically or face to face; D: Correct answers A and C.	
<b>8.</b>	<b>Ann compares savings offers. Both finance service providers use simple interest rate. Company “X” offers a deposit with annual interest rate 6%, but company “Y” offers deposit with half a year interest rate 3%. Where is beneficial for Ann to deposit her money?</b> A: Company „X”; B: Company „Y”; C: In both companies; D: Not enough data to calculate as no deposit sum is available.	
<b>9.</b>	<b>What is the end value of deposit if 1000 EUR is deposited for two years with annual interest rate 7%, conversion period – 1 year, type of interest is not determined.</b> A: 1140,00 EUR; B: 1144,90 EUR; C: 1410,00 EUR; D: 1414,90 EUR.	
<b>10.</b>	<b>Who pays the higher interest rate?</b> A: Employee; B: Employer; C: State institutions; D: All pay equal tax rate.	
<b>11.</b>	<b>Which salary indicates the increase of standard of life?</b> A: Gross Salary; B: Minimum Wage; C: Net Salary; D: Regular Salary.	
<b>12.</b>	<b>Which statement is false?</b> A: Gross salary is higher than net salary; B: Employer costs are equal with Gross Salary; C: Employee social tax rate is smaller than income tax rate; D: Retirement age is equal for women and men.	
<b>13.</b>	<b>Employer is not allowed to pay in addition to basic salary.</b> A: Illegal salary; B: Overtime payment; C: Bonus; D: Additional remuneration.	

<b>14.</b>	<b>What are employee’s additional rights if employer is entered in employee’s electronic payroll tax booklet?</b> A: Non-taxable minimum is applied in salary calculation; B: A sick leave document is handed to employer; C: Relief for dependents is used in salary calculation; D: Answer A and C.	
<b>15.</b>	<b>In which case the employee’s net salary is the highest?</b> A: Employer is entered in electronic payroll tax booklet, no dependents; B: Employer is entered in electronic payroll tax booklet, one dependent; C: Employer is not entered in electronic payroll tax booklet, no dependents; D: Employer is entered in electronic payroll tax booklet, three dependents.	
<b>16.</b>	<b>How many working relations an employee may have:</b> A: One; B: Two; C: Three; D: Labour law does not regulate it;	
<b>17.</b>	<b>Income from Salary increases due to tax or duty increase:</b> A: The increase of income tax; B: The increase of employer social tax rate; C: The increase of non-taxable minimum; D: The increase of risk duty,	
<b>18.</b>	<b>Which option is not related to Social Tax?</b> A: To get financial health care; B: Paid vacation; C: A child allowance is received; D: State allowance due to sickness is received; E: Pension.	
<b>19.</b>	<b>What is the minimum vacation period for each calendar year if a person worked according to the legislation?</b> A: 15 calendar days; B: 15 working days; C: 20 calendar days; D: 20 working days.	

## Theme II RISKS AND INSURANCE

**Risks** are the possibilities of danger or loss. Risk is a too risky activity by believing to succeed when taking a risk. Every person faces different risks. Risks can be classified according to different features – type, size, forecast etc.

A simple classification is the following:

- Risks for life (for example – death)
- Risks for health (for example – sickness)
- Risk of income loss (for example – unemployment)
- Other non-life risks (for example – theft)
- Fires
- Other damage

Many risks you cannot eliminate, but it is important to be aware of them. Insurance service can reduce the risk. Most of insurance services are voluntary. Part of them is compulsory and regulated by the state.

Most consequences of risks can be expressed as a financial loss. **Insurance** is the protection against financial losses. Risk is shared with others. Insurance protects the individual and his activities. In accordance with insurance companies and the Law on Insurance, insurance company guarantees policyholder against loss, it underwrites the risk. Both parties sign an **insurance policy**. The price for insurance is the Premium. It is the payment made by the Insurer for insurance claim. Insurance premium depends on insurance cases and costs pooled together by insurance companies. If the case of insurance sets in, the costs of insurance policy next time are higher than previously. The insurance company in accordance of the **insurance policy covers the claim**. Insurance policy is taken both by state and individuals.

- a) **State social security** – employer makes payments in state budget by paying tax on salary, the state guarantees pension at certain age and different allowances due to sickness or unemployment.
- b) **Private social security** – an individual makes payments in insurance products life assurance and the Third pension level.

### *STATE SOCIAL INSURANCE*

**State social insurance** is the part of state social security system. Social insurance aims to insure the individual and its dependents against risks of loss of income due to sickness, disability, maternity, unemployment, age and accident at work, sickness at work, additional costs related to raising of a child or related to the death of breadwinner.

**State Social Insurance Agency** deals with social insurance in Latvia. The main function is to provide social insurance and service related to social insurance including calculation, recalculation and payment of pensions, allowances and remuneration.

There are the following **pensions** of Latvia:

- Pension that received at pension age;
- Disability pension;
- Due to loss of breadwinner’s pension;
- Pension for special professions;
- Pensions due to definite decisions;

The right to receive Old Age Pension (OAP) has individuals who have reached the pension age and whose insurance period is not less than 10 years. Until 2013, December for both men and women the pension age was 62 provided that insurance period is not less than 10 years. Since 2014 January 1 retirement age is being increased for three month annually. From 2025 January 1, retirement age will be 65 and the insurance period should be 15 years.

The right to receive the retirement pension due to disability has individuals who are disabled and whose insurance period is not less than 3 years. Disability pension is paid until the person reaches the retirement age.

Children and disabled members of the family are entitled to receive the pension due to the loss of breadwinner. The breadwinner has to be insured.

Pensions due to definite decisions could be received, for example, in case of elimination of natural disasters or other accidents. Family members are eligible to receive this pension.

Pensions related to special professions due to the fact that certain period of work the level of skills has decreased or the job involves the risk.

#### *PENSION SYSTEM*

Since 2001 July 1 there are **three pension levels in Latvia:**

**Level 1: State compulsory pension system.**

It includes generation and gender equal treatment principles). Generation equal treatment means that working (taxpaying) population social security contributions are being used in order to pay old age pensions to the current retirees. Gender equal treatment means that the same pension period applies in case of their retirement to both women and men.

**Level 2: Funded pension scheme.**

Social security contributions that have been made are being invested in financial markets and pension accruals are being made in each Level 2 personal account. Pension level is managed by banks.

**Level 3: Private voluntary pension scheme.**

Similar to life assurance, envisages a free choice for every individual to set up additional accruals for their pension by making contributions into Private Pension Funds. Private Pension Fund is a licensed finance body, which accepts their own private contributions, as well as those made by the third party. They organize their management in order to ensure accruals for those persons in old age. The sum of money invested in the Level 3 is 10% from gross salary provided that an individual hands in income declaration for the tax rebate, which is 24% from payments. At the age of 55 the individual can claim all accrued sum as well as interest rate from the pension.

- *Additional information is available:*

<i>3 LEVELS OF PENSION SYSTEM</i>	• <a href="http://www.vsaalv.lv/pakalpojumi/pensionariemsenioriem/pensiju-sistemas-3-limeni">http://www.vsaalv.lv/pakalpojumi/pensionariemsenioriem/pensiju-sistemas-3-limeni</a>
<i>VIDEO ABOUT PENSION SYSTEM</i>	• <a href="http://www.manapensija.lv/lv/pensiju-sistema/pensiju-sistema/">http://www.manapensija.lv/lv/pensiju-sistema/pensiju-sistema/</a>

### STATE SOCIAL ALLOWANCES

**State Social Allowance** is state support provided to certain groups of population who are in the need for additional funding, provided they cannot receive income, they are not compensated by state social insurance system.

- 1) State family allowance;
- 2) A child benefit;
- 3) Guardian’s allowance for a dependent child;
- 4) Remuneration for the fulfilment of a guardian’s duties;
- 5) Remuneration for the fulfilment of a foster family’s duties;
- 6) An allowance for the compensation of transport expenses for Disabled persons who have difficulties in movement;
- 7) State social security benefit;
- 8) Remuneration for the care of an adopted child;
- 9) Care of disabled child benefit;
- 10) An allowance for a disabled person for whom care is necessary
- 11) Childbirth allowance;
- 12) Funeral allowance;
- 13) Remuneration for adoption.

Apart from pensions the state ensures social guaranties due to loss of job and sickness.

**Unemployment Benefit** is granted:

- 1) The person has the status of unemployed;
- 2) The total insurance period of individual is not less than one year;
- 3) Compulsory social insurance payments due to the loss of a job provided it is not less than one month over the twelve month period.

- *Additional information is available:*

<i>INFORMATION FOR UNEMPLOYED AND JOB SEEKERS</i>
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- <http://www.nva.gov.lv/index.php?cid=433&mid=488>

You may be entitled to receive the **sickness allowance**, if:

- 1) You are an employee;
- 2) You are self-employed and have made social insurance contributions;
- 3) You are a spouse of a self-employed person and have joined the social insurance.

Continuously, the allowance will be paid for a maximum of 26 weeks. Based on a conclusion issued by the State Medical Commission for the Assessment of Health Condition and Working Ability, the benefit payment period may be extended, but no more than for 52 weeks; intermittently, the benefit will be paid for a maximum of 52 weeks in a three year period.

For the first 10 days of the sickness, the employer shall pay sick pay in the following amount:

- For the second and third day of the sickness – not less than 75% of your average earnings;
- From the fourth to the tenth day of the sickness – not less than 80% of your average earnings.

- From the 11th day of sickness, the State Social Insurance Agency shall grant a sickness benefit in the amount of 80% of your average contributions salary.

The average contributions salary of an employee is calculated in accordance with the payments made during the last 12 months, ending one quarter (3 months) before the quarter, in which the temporary disability began.

#### *INSURANCE FOR MOTOR VEHICLE*

Every owner of a car needs to take out the compulsory motor vehicle insurance.

**MTPL (OCTA – in Latvian) is a dry land compulsory civil liability insurance of motor vehicle owners.** In the European Union it has been determined that an MTPL policy is required to all motor vehicles and trailers that form a part of the road traffic and have been registered at the Road Traffic Safety Directorate or State Technical Control Agency. MTPL insurance is performed in accordance with the Compulsory Civil Liability Insurance of Owners of Motor Vehicles Law. MTPL policy, which has been issued to a vehicle registered in Latvia, is valid in the entire European Economic Area and Switzerland. If a road traffic accident has occurred due to the fault of the driver of the vehicle and the property or health of another person has been damaged, losses are covered by the insurance company, not the guilty driver, thus, MTPL policy will protect you from expenses for the losses caused to another person or vehicle.

A vehicle should be protected from all major risks that may incur while using a vehicle. Furthermore, the insurance process itself and rules should be easily understandable and transparent. The client should not be an expert in the field of insurance to understand all **voluntary vehicle insurance CASCO** policy conditions.

**CASCO is of different types that cover losses caused by:**

- Traffic accidents,
- Low-quality road surfacing (e.g. car damage by driving over a pothole),
- Vehicle theft or burglary,
- Deliberate damage by a third party,
- Fire,
- Natural disasters,
- Glass breakage,
- Damage caused by falling objects,
- Damage caused by animals, including damage to the vehicle interior or the engine compartment,
- Participation in competitions, when the regulation of competition includes, partially or entirely, driving on public roads in compliance with traffic rules.

## II-1.1. assignment „INSURANCE COSTS”

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**1. Enter into the table family insurance policies within the year. Indicate insurance premium, the insurance provider and the number of insurance holders.**

*Types of insurance:*

- *Life assurance and insurance in case of accidents;*
- *Health assurance;*
- *Payments in to the third level pension fund;*
- *Housing insurance;*
- *Compulsory Third Party Liability Insurance (MTPL);*
- *Voluntary vehicle insurance (CASCO);*
- *Other insurances.*

<i>No.</i>	<i>Type of Insurance</i>	<i>Premium per year, EUR</i>	<i>Insurance provider</i>	<i>Number of family members who are insured against</i>

**2. Taking into account the information in the table, determine total family insurance costs per year EUR.**



### II-1.3. assignment „INSURANCE FOR MOTOR VEHICLE”

*There was a traffic accident. The vehicle in silver colour crossed the road under the red light. The car crashed into another car of pink colour, which crossed the road under the green light. The driver in the vehicle of silver colour is found guilty. The table shows the information about insurance for both motor vehicles:*

	COMPULSORY INSURANCE		CASCO		
	Premium	Insurance Sum	Premium	Self-risk	Insurance Sum
Vehicle in silver	<i>Insurer „A”</i>		<i>Insurer „B”</i>		
	40,00 EUR	3500,00 EUR	220,00 EUR	400,00 EUR	3500,00 EUR
Vehicle in pink	<i>Insurer „C”</i>		<i>Insurer „D”</i>		
	35,00 EUR	4000,00 EUR	230,00 EUR	0,00 EUR	3800,00 EUR

*It is evaluated that the vehicle in silver colour for its repair requires 600 EUR, but the vehicle in pink requires 800 EUR.*

**1. Answer the questions and fill in the table.**

	<i>Driver of vehicle in silver</i>	<i>Driver of vehicle in pink</i>
a) Will the compensation be received? (if “No” proceed to question „e”)		
b) Which company will compensate the damage?		
c) What will be the amount of compensation?		
d) Will the insurance company claim the compensation from the third party? If “Yes”, who needs to compensate?		
e) Will the accident increase the price of insurance policy for the next insurance period?		

**2. What could change in case both drivers did not have CASCO policy?**

*Answer provided:*

## II-1.4. assignment „INSURANCE AGAINST ACCIDENTS”

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**Read the situation and fill in the table.**

*Scot has insured his house using non-life insurance. He paid for the insurance policy 67 EUR. The value of his property was assessed to be 50 000 EUR. The self-risk was mentioned to be 1 000 EUR. The fire broke out. The roof and the second floor burned down. The loss was evaluated to be 30 200 EUR.*

<i>Insurance Premium</i>	<i>Insurance Sum</i>	<i>Self-risk</i>	<i>Compensation to be paid:</i>
_____ EUR	_____ EUR	_____ EUR	_____ EUR

II-1.5. assignment „ INSURANCE FOR MOTOR VEHICLE”

**1. Determine the costs of your one motor vehicle insurance in your household, by indicating the following**

Make	
Model	
Year of Manufacture	
Age of owner	
Years for holding drivers licence	
Market value of the motor vehicle, EUR	

**2. Study the offer for motor vehicle insurance provided by different insurance institutions and fill in the table:**

OCTA	<i>The best selection of insurer</i>	<i>Price EUR</i>	<i>Second best selection of insurer</i>	<i>Price EUR</i>	<i>The least beneficial insurer</i>	<i>Price EUR</i>
3 months						
6 months						
9 months						
1 year						
Compulsory Civil Liability Insurance (per year)						

**3. Answer following questions:**

- a) Evaluate how the costs of insurance increase under the change of insurance period.
- b) How will you explain the price difference between the best selection of insurer and the last beneficial insurer?
- c) How many times has increased the market value of the motor vehicle in relation to the most beneficial Compulsory Civil Liability Insurance price per year?

*Answers provided:*

## TEST 2 „RISKS AND INSURANCE”

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**Answer the following questions. Choose from the options provided and enter your choice in the table.**

*! Note: Each question has one correct answer*

No.	Question	Write the answer!
1.	<b>Insurance is directly related to:</b> A: Risk; B: Profit-making; C: Compulsory compensation; D: State capital investment.	<input type="text"/>
2.	<b>Most widely selected type of insurance in Latvia?</b> A: Compulsory third liability insurance; B: Life assurance; C: Insurance against accidents; D: Health insurance.	<input type="text"/>
3.	<b>There was the car accident. The damage of the motor vehicle was assessed to be 700 EUR. The owner of the car had obtained CASCO insurance policy. It cost him 320 EUR. The insurance company covered the damage 530 EUR. What was the self-risk indicated in insurance policy?</b> A: Not enough information available; B: 170 EUR; C: 320 EUR; D: 530 EUR.	<input type="text"/>
4.	<b>What is insurance premium?</b> A: Protection against financial loss; B: The sum of money that insured receives in case of insurance cover; C: Sum of money which comes into effect of insurance case that insured needs to cover the damage himself; D: Sum of money that insured needs to pay for insurance.	<input type="text"/>
5.	<b>Is there the relationship between self-risk and insurance premium?</b> A: Yes, the higher self-risk, the larger is insurance premium; B: Yes, the higher self-risk, the less is insurance premium; C: Yes, self-risk equals insurance premium; D: No, there is no relationship.	<input type="text"/>
6.	<b>How many pension levels are there in Latvia?</b> A: One level; B: Two level; C: Three level; D: Four level.	<input type="text"/>

No.	Question	Write the answer!
7.	<p><b>Which of the conditions is not compulsory criterion to provide unemployment benefit?</b></p> <p><b>A:</b> Eligible unemployed status; <b>B:</b> Total working period is not less than one year; <b>C:</b> The status of unemployed is not less than three month; <b>D:</b> Social insurance security has been paid in case of the loss of a job not less than 9 month within 12 month period.</p>	<input style="width: 100%; height: 100%;" type="text"/>
8.	<p><b>Who calculates and pays out unemployment benefit?</b></p> <p><b>A:</b> Employer; <b>B:</b> Social Insurance Agency; <b>C:</b> Employment State Agency; <b>D:</b> State Revenue Office.</p>	<input style="width: 100%; height: 100%;" type="text"/>
9.	<p><b>How long can an individual receive unemployment benefit in Latvia?</b></p> <p><b>A:</b> 6 months; <b>B:</b> 9 months; <b>C:</b> 12 months; <b>D:</b> The whole period of being unemployed and until a new job contract.</p>	<input style="width: 100%; height: 100%;" type="text"/>
10.	<p><b>What is not the responsibility of an unemployed?</b></p> <p><b>A:</b> To search actively for a job; <b>B:</b> To show documents that are mentioned in normative acts to State Employment Agency representative; <b>C:</b> After receiving the invitation to arrive at State Employment Agency within three days; <b>D:</b> To settle payment to State Employment Agency for service in accordance to price list stated in normative acts.</p>	<input style="width: 100%; height: 100%;" type="text"/>

## Theme III FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

### 1. Money and the development of payment

The history of money dates back to 75 000 B.C. As a means of exchange people used shells, ivory and other things. It is called money for goods. Then appeared money in metal. It was in the form of metal sticks, after that coins appeared, later evolved banknotes, finally – bank cards were issued. Money has four important functions: as a means of savings, the measure for the value and its payment function, as well as international application. If something is used as money, it must be safe against fraud. It must be easy to use. People should trust the money. It should have other features. Since 2014 Latvian national currency is the Euro. The figure reflects Latvian national currency since its establishment in 1918. It is showed in Figure 3



Figure III-1. Latvian Money 1919 – 2014

in 1998 banknote of 500 Lats was the most valuable banknote in the world.

Since 1993 the Bank of Latvia issued coins to be used for memory and special collections for example: „A Button”, „Munchausen” and others, which have got international awards.

<sup>1</sup> Ducmane K., Vēciņš Ē. Nauda Latvijā. Rīga, Latvijas Banka, 1995. 291 lpp.

<sup>2</sup> The same

<sup>3</sup> The same

<sup>4</sup> Latvijas Banka. “Viens Latvijas Rublis”, pieejams: [http://www.bank.lv/public\\_files/images/img\\_lb/about/latvian/images/lrub\\_av.jpg](http://www.bank.lv/public_files/images/img_lb/about/latvian/images/lrub_av.jpg) (skatīts 2014. gada 1. augustā)

<sup>5</sup> Latvijas Banka. “Latvijas naudas zīmes banknotes”, pieejams: <http://www.bank.lv/nauda/5-lati-saisinati-ls-5> (skatīts 2014. gada 1. augustā)

<sup>6</sup> Mūsu nauda. “Eiro banknotes”, pieejams: <http://www.jaunas-euro-banknotes.eu/Eiro-banknotes/Eiro-banknotes-7-2/PIRM%C4%80-IZLAIDUMA-10-EIRO-BANKNOTE> (skatīts 2014. gada 1. augustā)



**Figure III-2. Coins of Collection "Duke Munchausen"<sup>1</sup>**

- *More information is available:*

<i>Money of Latvia</i>	<a href="http://www.bank.lv/nauda/latvijas-nauda">http://www.bank.lv/nauda/latvijas-nauda</a>
<i>Latvian National Currency – history and modern times</i>	<a href="http://www.bank.lv/publikacijas/averss-un-reverss/latvijas-nacionala-valuta-vesture-un-sodiena/4671">http://www.bank.lv/publikacijas/averss-un-reverss/latvijas-nacionala-valuta-vesture-un-sodiena/4671</a>
<i>VIDEO „THE HISTORY OF MONEY”</i>	<a href="http://www.youtube.com/watch?v=TLVoV6gK8mE">http://www.youtube.com/watch?v=TLVoV6gK8mE</a>
<i>Movie “Latvian Files. Money” Lats in circulation (1993-2013)</i>	<a href="http://www.tvplay.lv/parraides/latvijas-faili/330117">http://www.tvplay.lv/parraides/latvijas-faili/330117</a>
<i>Functions of money</i>	<a href="http://www.naudasskola.lv/lv/content/tv-raidijums-naudas-zimes?birka=18#n">http://www.naudasskola.lv/lv/content/tv-raidijums-naudas-zimes?birka=18#n</a>

- *Questions for further study:*
  - *What is the difference of banknotes - 100 Lats, issued in 2007 and 1994?*
  - *How many types of two Lats coins were issued in Latvia?*

- *Interactive games:*

<i>“Where does the money come from?”</i>	<a href="http://www.naudasskola.lv/lv/content/speles#item674">http://www.naudasskola.lv/lv/content/speles#item674</a>
<i>“Show the pictures of the EURO issued in Latvia”</i>	<a href="http://www.naudasskola.lv/lv/content/speles#item676m">http://www.naudasskola.lv/lv/content/speles#item676m</a>

<sup>1</sup> Latvijas Banka. “Jubilejas monēta "Barons Minhauzens”, pieejams: <http://www.bank.lv/nauda/jubilejas-moneta-barons-minhauzens> (skatīts 2014. gada 1. augustā)



### III-1.2. assignment „A CROSSWORD PUZZLE”

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Due to differences in foreign language the crossword puzzle is not translated.

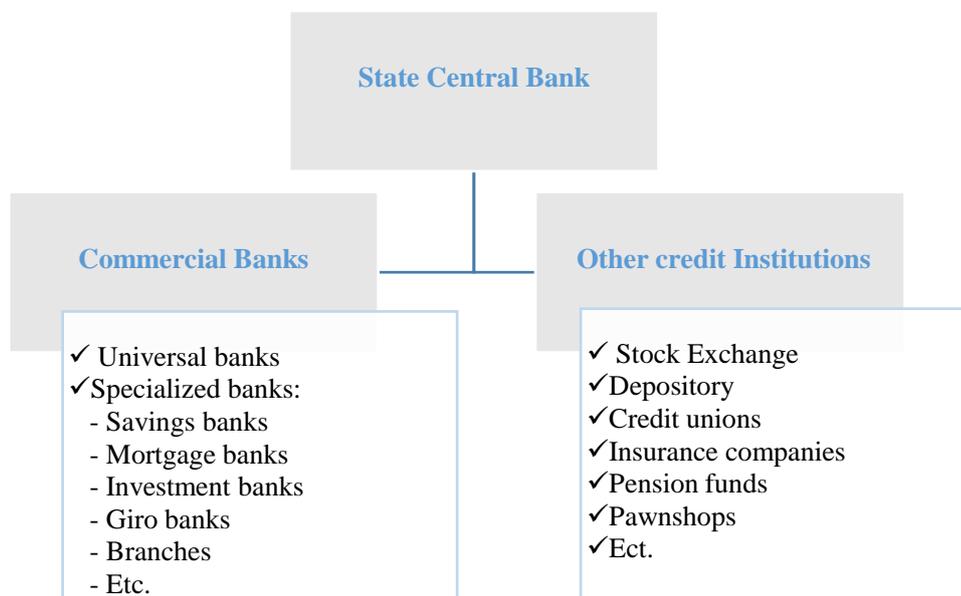
## 2. Banks and Banking Services

### *BANKING SYSTEM*

A Bank is a financial institution that trades in money, attracts free financial means, makes payments, and carries out banking operations such as crediting, dealing with securities, to conduct currency operations, regulations of money circulations and the operations related to keeping the value of currency.

The word "Bank" refers to a commercial bank, that is an institution offering financial services, especially when receiving deposits, offering loans and ensuring payments.

Today in most of the world, including Latvia there is a two tier system of financial institutions consisting of the first level- Central bank or the Bank of issue, the second level is banks and credit institutions that are commercial banks and other credit institutions. The figure III-3 shows the system of financial institutions.



**Figure III-3. The System of Financial Institutions**

The functions of the State Central bank include:

- To issue currency (in the EU countries where the EURO is not used)
- To implement monetary policy to ensure definite aims to be reached
- To set official currency exchange rate, in case of national currency
- To supervise commercial banks and other credit institutions (in most countries this function is performed by an independent institution, in Latvia it is Financial and Capital Market Commission,
- To manage other assets.

Historically The Central bank determines the money reserves, the circulation of cash currency, and compulsory money reserves. In some countries, like in the UK there are several Central banks.

### *THE EURO AREA*

Introduced in 1999, the euro is the single currency shared by 18 out of 28 EU countries of the European Union's member states. These countries make up the euro area, also known as the euro area. The introduction of the euro was a major step forward in European integration. Around 334 million EU citizens now use it as their currency, data of 2014. European Central Bank (ECB) is responsible for its Monetary Policy. One of its tasks is to maintain financial stability in the Euro zone so that inflation does not cause risks that could lead to the decrease of purchasing power. Annual inflation should not exceed 2% and it must facilitate economical development. The European Central bank monitors the price stability, monitors the amount of money in circulation and supervises the trends of prices. Although the European Central bank cannot regulate directly, for example, the fiscal policy, it can cooperate with the Euro area group. The European Finance ministers are included in this group; the bank can influence political processes. Representatives from each euro area country take part in the work of the European Central bank.

### *THE BANK OF LATVIA*

The Bank of Latvia, the country's central bank, is an independent institution that sets and executes monetary policy, manages the foreign currency and gold reserves, emits cash currency and ensures the functioning of the interbank settlement systems, and aggregates financial statistics. **The Bank of Latvia is a participant in the system of European Central Banks.**

The main function is to maintain the price stability that facilitates long term economical development. After the changeover from the Lats to the euro, the functions of the Bank of Latvia (BoL) as the national central bank have not changed, but its sphere of activity has broadened, first of all regarding the monetary policy decision making, having an equal say in deciding on the common monetary policy in the euro area, which consists of all those countries that have adopted the euro, as well as performing the necessary macroeconomic analysis.

The central bank in Latvia also performs other tasks that are important for the functioning of the economy and its bloodline, the financial system: the BoL ensures the circulation of cash currency and provides the environment for the functioning of safe interbank payment systems; it manages the foreign currency and gold reserves that cover the relevant liabilities, including currency in circulation, the deposits by the government and commercial banks with the central bank. The BoL also compiles the balance of payments and financial statistics.

After joining the Eurosystem the collaboration between the BoL as a participant in the Eurosystem and the European Central Bank (ECB) and other central banks of the euro area has acquired more intensity. As of 1 January 2014, Governor of BoL is a member of the ECB Council. The Council meets twice a month and in these meetings euro area monetary policy decisions are made and other important issues resolved.<sup>1</sup>

#### The Functions of the Bank of Latvia

- Cooperates in the setting of monetary policy and its implementation in the euro area;
- manages the foreign currency and gold reserves;

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<sup>1</sup>The Bank of Latvia. “ Objectives of the Bank of Latvia”, available: <http://www.bank.lv/en/about-the-bank-of-latvia/objectives-of-the-bank-of-latvia> (consulted 2014.gada 1.augustā)

- functioning of safe interbank payment systems in Latvia;
- ensures interbank payments in the Euro;
- ensures the circulation of cash currency;
- compiles the balance of payments and publishes financial statistics;
- represents the interests of Latvia in international financial institutions;
- supervises the currency exchange offices;
- keeps state information system-registry of loans.

### *SERVICES OF COMERCIAL BANKS*

The Law of the Republic of Latvia “On banks” determines the work of commercial banks and other credit institutions in the territory of Latvia.

Credit institutions are specialized business companies that their major function is to carry out **banking operations**. Commercial bank is the **credit institutions** that attracts free financial means of private individuals and legal entities and their co-financing in the form of **investment** and performs banking operations.<sup>1</sup>

Commercial banks perform the acquisition of financial means to use it in active banking operations. Liabilities consist of financial means acquired and bank capital; active operations that banks perform (granting of loans, investment of securities, trading of currency, assets include loans, securities and bonds, stocks and shares). Similarly to any company the aim of a commercial bank is to make a profit, therefore investment interest rates are lower than interest rates for loans.

There are 27 commercial banks in Latvia, including 10 foreign bank branches. All registered commercial banks in Latvia are corporations (Data of 2014).

**Loan** is a sum of money, lent for a fixed period, on which the borrower pays interest. To get a loan you need to provide a collateral or a guarantee. The bank has the right to seize the property, as well as request the person who can guarantee the loan if the borrower fails to repay the loan.

When selecting the loan the borrower needs to pay attention to the annual interest rate. It must be indicated in the loan agreement. Annual interest rate is the price to be paid for the loan. It is advisable to compare the offers of different commercial banks. When selecting non-banking loans, for example fast credits, note that the interest rate payments are much higher in comparison of commercial banks offers.

Equation to calculate total sum (principle and percentage):

$$K = S (1+i)^n,$$

*K* – Total sum of loan,  
*s* – Initial sum of loan,  
*i* – Interest rate per period,  
*n* – Number of periods.

Loan that are granted for more than one year, are considered to be **long-term loans**. It is common to use it to acquire real estate and other assets. The sum of long-term loans and sum to be paid per month is influenced also by credit price of the currency in the world markets. If

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<sup>1</sup> Likums «Par bankām», pieejams: <http://likumi.lv/doc.php?id=65546> (skatīts 2014. gada 1. augustā)

the loan is granted in the Euro currency, it is important to note Euribor. Euribor is short for Euro Interbank Offered Rate. The Euribor rates are based on the interest rates at which a panel of European banks borrow funds from one another. In the calculation, the highest and lowest 15% of all the quotes collected are eliminated. The remaining rates will be averaged and rounded to three decimal places. Euribor is determined and published at about 11:00 am each day, Central European Time. In the calculation of Euribor 40-50 bank interest rates are taken into account for which the bank lend the Euro in interbank markets. These banks belong to the Euro area banks and to the EU banks, which are not in the Euro area, it also includes international banks with huge deals in the Euro from the USA, Japan and other countries.

- *More information is available:*

RIGIBOR un EURIBOR –  
CREDIT PRICE OF THE  
CURRENCY IN THE  
WORLD MARKETS

<http://www.naudasskola.lv/lv/content/nauda-un-bankas#item993>

Banks offer also **consumer credits**. This is a loan issued (between three month up to five years) that is taken for some purchase or service. When banks grant consumer credit they asses the customer’s monthly income and their stability as well as the previous credit history (deposits, credit cards, etc.). To get a loan the customers are required to hand in the documents about their income.

**Currency risk** is the potential risk of loss from fluctuating foreign exchange rates when an investor has exposure to foreign currency or in foreign-currency-traded investments. Private individuals are the ones who face currency risks in cases their loans are in other currency than their income. To avoid currency risk you need to take the loan in the currency similar to your income. This will reduce the increase if the sum to be repaid in the case of currency fluctuations.

In accordance with the Consumer Protection Law, article 8 part 1, granting of loans could be offered by persons that grant or promise to grant a consumer loan including loan to buy a real estate. Loan is arranged as a deferred payment, loan or other financial agreement.<sup>1</sup>

Commercial banks tailor their services in accordance with a definite consumer group: students, retired people, regional companies, by offering specific loans.

Students can apply for two types of credits: **study credit** and **students credit**. A study credit is offered to students which are used to pay off tuition, but students credit helps to cover education-related expenses, for example room and board at the university, or textbooks. Many of these loans are offered to students at a lower interest rate, such as the Perkins loan or Stafford loan. In general, students are not required to pay back these loans until the end of a grace period, which usually begins after they have completed their education. The study credit is available for full-time and part-time students who study at accredited programs. The loan is paid twice a year and transferred to the bank account of the university. The interest rate is changeable. The students credit is available only for full-time who study at accredited programs. The interest rate is changeable.

- *More information is available:*

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<sup>1</sup> “Patērētāju tiesību aizsardzības likums”, pieejams: <http://m.likumi.lv/doc.php?id=23309> (skatīts 2014. gada 1. augustā)

STUDY AND  
STUDENTS  
CREDITS

[http://www.naudasskola.lv/sites/default/files/video/studentu\\_kreditu\\_low\\_konvertets.mp4](http://www.naudasskola.lv/sites/default/files/video/studentu_kreditu_low_konvertets.mp4)

On a daily bases the offer of the commercial banks service is used – bank account with the credit card and internet bank. Commercial banks offer debit and credit cards. With **debit cards** the customer settles payments with the deposited money; however with **credit cards** it is possible to get a short term loan. Credit cards are offered to clients with stable income and credit history. It is also possible to apply for **overdraft** in the case of debit cards. It is a short term credit without a guarantee taken for 30 days. Overdraft is an arrangement by which a bank customer can run up a debt to an agreed limit. It is commonly taken for unpredicted situations, when the person needs urgently money. Interest rate for overdraft as a rule is less than fast loan interest credits. Employees who apply for overdraft take the decision depending on the sum of salary.

**Online banking** is an electronic payment system that enables customers of a financial institution to conduct financial transactions on a website operated by the institution, such as a retail bank, virtual bank, credit union or building society. It is available 24 hours. Online banking is also referred as Internet banking, e-banking, virtual banking and by other terms. You can apply for online banking in every bank branch. To access online banking, a customer would go to the financial institution's secured website, and enter the online banking facility using the customer number and password previously setup. Some financial institutions have set up additional security steps for access to online banking, but there is no consistency to the approach adopted.

**Credit worthiness** is an assessment of a prospective borrower to determine the likelihood that the borrower will default on debts. A number of things are taken into a account when evaluating borrowers to find out how credit worthy they are. Borrowers can increase their chances of getting loans at favourable terms by familiarizing themselves with the criteria that come into play in credit worthiness evaluations and monitoring their credit reports for signs of adverse entries that might impact their credit ratings. The borrowers inability to repay a loan or offer of credit in the amount of 150 Euro for 60 days is considered as a breach of a credit agreement. If the information about the borrower is positive that is there are not breaches of liability it can be used as additional recommendation for applying for additional loans or to restructure the credit.

Money or its equivalents that companies, institutions and private individuals **deposit** in a bank or unit trusts in order **to make savings** and **to earn interest** are deposits. Deposits consist of accrued financial means of inhabitants, companies or institutions. The commercial bank system of deposits is regulated in Latvia by the law. Pursuant to the Law on Deposit Guarantees, the State guarantees the repayment of the amount not exceeding the equivalent of 100,000 Euros. The deposits of foreign bank branches are guaranteed by the state resident.

To make savings and increase its value you can use not only banking deposits, but investment in shares and investment funds are available. The aim of **Investment** of inhabitants, companies or institutions is **to make a profit**. It forms investments in securities (shares, bonds, derived securities) with the aim to increase its value. Investment funds or acquisition of state bonds or accumulating life assurance can be used.

A **share** is a unit of account for various investments. It often means the stock of a corporation, but is also used for collective investments such as mutual funds, limited partnerships, and real estate investment trusts. The owners of shares have the right to take part in the management of

cooperation, they can receive dividends and in the case of termination of corporation they can receive a liquidity quota. Shares can be bought at stock exchange. The profit can be made from the market value of shares.

A financial market of a group of securities in which prices are rising or are expected to rise. The term "**bull market**" is most often used to refer to the stock market, but can be applied to anything that is traded, such as bonds, currencies and commodities. A market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining – it is a "**bear market**". As investors anticipate losses in a bear market and selling continues, pessimism only grows. The use of "bull" and "bear" to describe markets comes from the way the animals attack their opponents. A bull thrusts its horns up into the air while a bear swipes its paws down. These actions are metaphors for the movement of a market. If the trend is up, it's a bull market. If the trend is down, it's a bear market.

- *More information is available:*

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CENTRE OF FUNDS

<http://www.nasdaqomxbaltic.com/market/?pg=fc&lang=lv&gclid=CPihy9O647kCFUMd3god818ACg>

An **investment fund** is a way of investing money alongside other investors in order to benefit from the inherent advantages of working as part of a group. These advantages include ability to:

- hire professional investment managers, which may potentially be able to offer better returns and more adequate risk management;
- benefit from economies of scale, i.e., lower transaction costs;
- increase the asset diversification to reduce some systemic risk.

Finances are placed in the segments of financial markets – shares, bonds, real estate. Funds decrease the risks by dividing finances into securities it gives access to the markets in which in other situations it would be not possible to get in. The higher the risk the bigger is a profit. If you take a low risk the profit is also smaller. When selecting investment fund manager, you trust him to earn and to risk with your money.

A **government bond** is a bond issued by a national government, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date. Government bonds are usually denominated in the country's own currency. The government of Latvia offers bonds with low nominal value for a definite profitability. If you compare with the deals done at Riga Stock Exchange government bonds are safer.

- *More information is available:*

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KRĀJOBĻIGĀCIJAS

[www.krajobligacijas.lv](http://www.krajobligacijas.lv)

**Accumulating life assurance** combines life assurance, insurance against accidents and including making savings. The minimal period of assurance is five years. You can claim back money - 10% from gross salary for each sum paid into assurance.

- *More information is available:*

Financial and Capital  
Market Commission,  
Costumer School

<http://www.klientuskola.lv/lv/kas-tev-jazina-par-finansu-pakalpojumiem>

- The teacher can demonstrate consumer credit calculations of different banks.
- For discussion and assessment of knowledge you can use the following information:

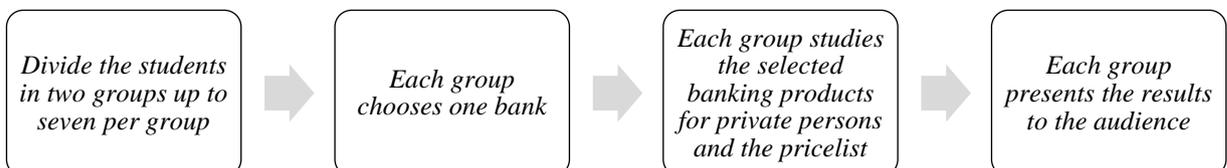
“I NEED MONEY” <http://www.naudasskola.lv/lv/content/prezentacijas#item1015>

NORDEA MONEY SCHOOL;  
“NDEPOSIT IQ” <http://www.nordea.lv/Par+Nordea/Par+Nordea/Naudas+skola/1626422.html?searchPhrase=naudas+skola&bb=0>

- To improve financial literacy of students you can use special internet sites:

- [www.bank.lv](http://www.bank.lv)
- [www.makroekonomika.lv](http://www.makroekonomika.lv)
- [www.manapensija.lv](http://www.manapensija.lv)
- [www.naudaslietas.lv](http://www.naudaslietas.lv)
- [www.nebankukrediti.lv/](http://www.nebankukrediti.lv/)

- For group work:



### III-2.1 assignment “OPENING OF A BANK ACCOUNT”

---

**Answer the following questions:**

- a) How can a person open a bank account under the age of 18?
- b) What are the most important factors when choosing a bank for opening a bank account?
- c) Select at least three different banks. Compare the offers for opening a bank account for a private person. Describe them.
- d) What are the costs for opening the bank account in the selected bank?
- e) Which bank will you choose from the above selected if you need to open the account today?

*Answers provided:*

### III-2.2. assignment “BANKING SERVICES”

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Due to the differences in foreign language the assignment is not translated.

### III-2.3. assignment “CURRENCY EXCHANGE”

**1. Compare three official Currency Exchange Rates suggested by commercial banks in Latvia. What are the conclusions?**

Date: □ □ □	Bank No.1. “ □ □ □ □ ”		Bank No.2. “ □ □ □ □ ”		Bank No.3. “ □ □ □ □ ”	
	BUY	SELL	BUY	SELL	BUY	SELL
DKK						
GBP						
RUB						
USD						

*Conclusions:*

**2. Calculate and write the answers in the table.**

	Condition A	Condition B
	<i>Khel will travel to Denmark. He wants to change 43,00 EUR in Danish kroner</i>	<i>Sandy has returned from the UK and she wants to Exchange 75 British Sterling Pounds in Lats.</i>
Which is the most beneficial bank to exchange the currency?		
How much currency will be obtained?		





### III-2.6. assignment „CAR PURCHASE”

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Adam got 600 EUR from his parents as a birthday present. He wants to buy his first car. He combines studies with his job and receives 115 EUR per month. Adams compares two alternative offers of a car:

- A. **Audi Coupe 1996 year** for 1100 EUR. The first instalment is 20%. For the rest of the sum he can take the credit for 24 month, annual interest rate 7%.
- B. **BMW 318 1997 year** par 1200 euro. The first instalment is 600 EUR. The rest of the sum can be paid within 60 months without additional interest rate. Adam plans to pay every month 50 EUR.

#### 1. Calculate and answer the following questions.

- a) What is the cost of AUDI purchase?
- b) How long will it take to pay the entire price for BMW?
- c) Which end price for the car is larger?
- d) For which car Adam can settle payment faster, for how many months?
- e) How much Adam needs to save per month so that after two years Adam can pay all the sum of credit for AUDI? For which car the monthly settlement is higher? What is the difference in the price?
- f) What would be the total price of AUDI if Adam as a first instalment would pay the money he got as a present? Similarly as for BMW, he wants to settle the payment within a year.

#### 2. Provide advantages and disadvantages for each offer of the car.

<i>Advantages</i>	<i>Disadvantages</i>





## III-2.9. assignment „PROFITABILITY OF TERM DEPOSIT”

Kris deposited 1 000 EUR on January 1 2011 in term deposit for three years. On December 31 2013 the bank transferred to his account the profit from term deposit 1031,83 EUR

**Calculate the profitability of term deposit if you know that annual inflation in Latvia in 2010 was 2,5%, but in 2011 - 4,4%, whereas in 2012 - 1,6%. In 2013 inflation was 0%.**

*Calculations:*

*Answers provided:*

### III-2.10. assignment „FINANCIAL TERMS”

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**Match the term with the explanation.**

1. CREDITOR

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A. remuneration that creditor wants to get because he lent the money.

2. LEASE

---

B. the person who has borrowed money.

3. CREDIT

---

C. in latin it means - trust.

4. PERCENTAGE

---

D. the person who lends money.

5. DEBIOR

---

E. financial service the creditor gives to borrower the right to use the object in turn for definite payments set in the agreement

### III-2.11. assignment „TYPES OF CREDITS”

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Due to the differences in foreign language the assignment is not translated.



### III-2.13. assignment „TYPES OF INCOME”

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Due to the differences in foreign language the assignment is not translated.

### TEST 3 „FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS”

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**Answer the following questions! Choose from the options provided and enter your choice in the table!**

*! Note: Each question has one correct answer*

No.	Question	Write the answer!
1.	<b>How many functions does money have?</b> A – 1;            B – 2;            C – 3;            D – 4.	<input type="text"/>
2.	<b>What is the function of money when we do shopping?</b> A: the function of the measure for value;            C: The EURO function; B: payment function;            D: savings function.	<input type="text"/>
3.	<b>What was the currency until 1940 in Latvia?</b> A: Latvian Roubles;            C: Roubles of the Soviet Union; B: Latvian Lats;            D: Deutschmark.	<input type="text"/>
4.	<b>When was the world’s most valuable banknote - 500 Latvian Lats issued?</b> A: in 1924;            C: in 1993; B: in 1931;            D: in 1998.	<input type="text"/>
5.	<b>What was the currency exchange rate on January 1, 2014 when Latvia introduced the Euro currency?</b> A: 1 LVL = 1 EUR; B: 1 LVL = 0,702804 EUR; C: 1 EUR = 0,702804 LVL; D: 1 EUR = 1,42287 LVL.	<input type="text"/>
6.	<b>What is reflected on reverse of 1 EUR and 2 EUR Latvian coins?</b> A: Latvian folk-maid in profile; B: The Latvian Coat of Arms; C: Ex-president – Vaira Vīķe-Freiberga; D: The Monument of Liberty.	<input type="text"/>
7.	<b>How many different Euro banknotes are there in circulation?</b> A: 4;            C: 6; B: 5;            D: 7.	<input type="text"/>
8.	<b>What determines the value of 10 EUR banknotes?</b> A: The Bank of Latvia; B: European Central Bank; C: The volume of goods and services to be obtained by consumer for this sum; D: The offer and demand of the EUR banknotes in Latvia.	<input type="text"/>

9. **How many countries have introduced the Euro as means of payment?**  
A: 18; C: 22;  
B: 20; D: all EU countries (EU27).
10. **How do you call the criterion that the EU country must comply with to introduce the Euro as official means of payment?**  
A: Fisher; C: Breton wood;  
B: Maastricht; D: Marshal.
11. **What is not the function of the bank of Latvia?**  
A: to implement monetary policy;  
B: to supervise the currency exchange offices;  
C: to manage state golden reserves;  
D: to attract private deposits.
12. **What does AIR mean?**  
A: An interesting rate; C: Annual interest rate;  
B: Annual application rate; D: Government Planned Loan.
13. **If you need to borrow money what is the most expensive way from the offer provided?**  
A: fast credit; C: borrowings from parents;  
B: loan in the bank; D: borrowings from friends.
14. **Jan borrowed 500 000 EUR from the bank for four month. The Annual Interest Rate was set 12%. What is the sum of money Jan must pay to the bank at the end of the period?**  
A: 500 EUR; C: 540 EUR;  
B: 520 EUR; D: 560 EUR.
15. **Jan deposited 24 000 EUR in a commercial bank. The bank went bankrupt. What is the sum he will get back from the bank?**  
A: 40 000 EUR; C: 120 000 EUR;  
B: 100 000 EUR; D: 240 000 EUR.

## KEY TO THE ASSIGNMENTS

### I-1.2. assignment „PERSONAL BUDGET”

**1.**

<i>INCOME</i>				<i>EXPENSES</i>			
No.	Position	Sum EUR	% of total	No.	Position	Sum EUR	% of total
1.	Pocket money	<b>20,00</b>	<b>28,6</b>	1.	Mascara	<b>7,00</b>	<b>12,3</b>
2.	The present given by grandmother	<b>20,00</b>	<b>28,6</b>	2.	Dancing classes	<b>30,00</b>	<b>52,7</b>
3.	Money for dancing classes	<b>30,00</b>	<b>42,8</b>	3.	Lunch	<b>20,00</b>	<b>35,0</b>
<b>TOTAL:</b>		<b>70,00</b>	<b>100%</b>	<b>TOTAL:</b>		<b>57,00</b>	<b>100%</b>
With Surplus <b>13,00</b> EUR				Balanced/ Deficit _____ EUR			

**2.**

- a) Dancing classes;
- b) 50 out of 57 = 87,72%;
- c) Santa could save on mascara, savings 7 EUR out of 57 EUR, or 12,28%;
- d) Yes, it is advisable to make money savings as a protection of unplanned reduction of income, as well as to make savings for the future, for larger purchases or other unplanned costs.

### I-1.3. assignment „HOUSEHOLD BUDGET”

**1.**

Income of one parent is average per country = 508,00 EUR  
 Income of a second parent is 14% higher:  $508 + 508 \cdot 0,14 = 579,00$  EUR  
 Child benefits:  $2 \times 11 = 22,00$  EUR  
**Total income of the household:  $508 + 579 + 22 = 1109,00$  EUR**

**2.**

Total sum of money per month you multiply with a definite position of the costs %, divide the sum by 100. To get the costs per day divide the figure by 30.

	2013.g., EUR per month	2013.g., EUR per day (a month consists of 30 days)
<i>Johnson's Family</i>		
<b>Consumption expenditure</b>	<b>1109,00</b>	<b>36,97</b>
Food and non-alcoholic beverages	<b>312,74</b>	<b>10,42</b>
Alcoholic beverages, tobacco	<b>36,60</b>	<b>1,22</b>
Clothing and footwear	<b>64,32</b>	<b>2,14</b>
Housing, water, electricity, gas and other fuels; Furnishings, household equipment and routine maintenance of the house	<b>182,99</b>	<b>6,10</b>

<i>Johnson's Family</i>	<i>2013.g., eiro mēnesī</i>	<i>2013.g., eiro dienā (pieņemot ka mēnesī 30 dienas)</i>
Health	<b>46,58</b>	<b>1,55</b>
Transport	<b>68,76</b>	<b>2,29</b>
Communications	<b>146,39</b>	<b>4,88</b>
Recreation and culture	<b>46,58</b>	<b>1,55</b>
Education	<b>78,74</b>	<b>2,62</b>
Hotels, cafes and Restaurants	<b>15,53</b>	<b>0,52</b>
Miscellaneous goods and services	<b>48,80</b>	<b>1,63</b>

### 3.

- a) Different answers might be correct – payment for legal services, arrangement of events, and repayment of fast credit and etc. It is important not to classify it under of one of the positions.
- b) The pocket money for a child per month: total available sum of money per month is multiplied with the costs under the position “Other expenses”, percentage is divided with 100, and then it is divided by 2. The pocket money of one child forms this sum to be divided by 2.
- c) One week to be multiplied by 5.

#### I-2.1. assignment “MAKING SAVINGS”

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- a) There are several true answers. It is important that the student supports in a logical way his/her answer. From the reasonable point of view of consumption, the best answer would be „Yes”. In case the answer is „yes” as explanation could be „unplanned costs” and „other aspects”. In case the answer is „No”, the student has to show that money has lost its value due to inflation. Devaluation also is possible.
- b) Bank account, savings account, investment, saving money in a safe box at home, etc.

#### I-2.3.assignment “CALCULATE INTEREST ON SAVINGS”

---

- 1) Simple interest rate:  $600 (1 + 0,1 \times 4) = 840,00$  EUR
- 2) Compound interest rate:  $600 (1 + 0,025)^{16} = 890,70$  EUR
- 3)  $890,70 - 840,00 = 50,70$  EUR

**The income will increase by 50,70 EUR**

#### I-2.4. assignment “DEPOSITS AND BONDS”

---

The teacher indicates five different sums of inheritance. It must be similar to the number of students. In case of large student groups it is possible to indicate different currencies. After the task the students are divided into groups. There should be students with different investment sums. The assignment is to compare the results obtained, to make conclusions, related to different profitability and different sums of investment, as well as due to different investment terms. Compare whether different interest rates for different investments are offered by the same financial institution or different institution. The analysis is made by all groups. It is reflected on the board and a joint evaluation is done.

The conclusions made by students may be different, for example:

- in case of a larger sum of investments, there is a higher interest rate;
- in the same bank investment can be more profitable, but at the same time – less profitable, it depends on the sum and the period of investment;
- The most popular banks do not offer profitable interest rates for investments.

#### I-2.5. assignment “CALCULATIONS OF THE VALUE OF DEPOSIT”

---

- a) Simple interest rate:  $1000 (1 + 0,09 \times 0,5) = \mathbf{1045,00 \text{ EUR}}$
- b) Compound interest rate:  $1000 (1 + 0,0075)^6 = \mathbf{1045,85 \text{ EUR}}$

#### I-2.6. assignment “EVALUATION OF OFFERS FOR DEPOSITS”

---

- 1) The final value of investment in the bank A:  $20\,000 (1 + 0,05 \times 15) = 35\,000,00 \text{ USD};$
- 2) The final value of investment in the bank B:  $20\,000 (1 + 0,01)^{60} = 36\,333,93 \text{ USD};$
- 3) Despite the fact that annual interest rate in bank B is lower than in bank A, but bank B uses compound calculation. It is better to invest in bank B.

#### I-2.7. assignment “TOTAL SUM OF CREDIT”

---

- a)  $240,00 (1 + 0,005 \times 1) = \mathbf{241,20 \text{ EUR}}$
- b)  $240,00 (1 + 0,06 \times 0,25) = \mathbf{243,60 \text{ EUR}}$
- c)  $240,00 (1 + 0,005 \times 6) = \mathbf{247,20 \text{ EUR}}$
- d)  $(1 + 0,06 \times 1) = \mathbf{254,40 \text{ EUR}}$
- e)  $240,00 (1 + 0,06)^2 = \mathbf{269,66 \text{ EUR}}$

#### I-2.8. assignment „FAST LOANS”

---

In the case of the company “X”:

- 1)  $168,77 = 150 (1 + 1a)$
- 2)  $168,77 = 150 + 150a$
- 3)  $18,77 = 150a$
- 4)  $a = 0,125$   
Interest rate per month 12,5%,  
**Annual interest rate – 150 %**

In the case of the company “Y”:

- 1)  $180 = 150 (1 + 1a)$
- 2)  $180 = 150 + 150a$
- 3)  $30 = 150a$
- 4)  $a = 0,2$   
Interest rate per month 20,0%,  
**Annual interest rate – 240 %**

#### I-2.9. assignment “SAVINGS”

---

- 1) Deposit after grade 10:  $350 \times 3 \times 0,60 = 630,00 \text{ EUR};$   
Deposit for two years; at the end of the period:  $630 (1 + 0,07)^2 = 721,29 \text{ EUR};$
- 2) Deposit after grade 11:  $550 \times 3 \times 0,60 = 990 \text{ EUR};$   
Deposit for one year; at the end of the period:  $990 (1 + 0,07 \times 1) = 1059,30 \text{ EUR};$
- 3) Savings after grade 12:  $400 \times 2 \times 0,60 = 480,00 \text{ EUR};$

4) The sum for the trip to Denmark:  $721,29 + 1059,30 + 480,00 = \mathbf{2260,59 \text{ EUR}}$ .

### I-2.10. assignment „COSTS FOR STUDIES IN THE FUTURE”

- a) Total sum of tuition fee, in EUR
- b) Period is age, when the studies began (in month) minus the current age
- c) Accrued sum for one month is total sum of tuition fee per months is dividend by month until the studies begin
- d) Savings for one month is Total sum of tuition fee dividend my number of month, left to start studies
- e) Sum is tuition fee per year multiplied by study years
- f) Assuming that annual interest rate is 5%
- g) % sum is sum of credit multiplied by 5%
- h) In case the sum is under 1400 EUR, it must be repaid in 5 years, in case it is a larger sum, it must be repaid in 10 years.  
Payment per month is  $(\text{sum} + \% \text{ payment}) / \text{the number of month in which to be repaid the credit}$ .  
In case the sum is under 1400 EUR, must be repaid in 60 month, in case the sum is higher it is within 120 months

### I-3.1. assignment „TYPES OF SALARY”

- |           |           |         |
|-----------|-----------|---------|
| a) salary | d) wage   | g) wage |
| b) salary | e) wage   |         |
| c) wage   | f) salary |         |

### I-3.2. assignment „CALCULATION OF NET SALARY”

**1.**

$$700 - 10,5\% - 24\% = \mathbf{476,14 \text{ EUR}}$$

**2.**

320,00 – 10,5% = 286,40 EUR	320,00 x 0,105 = 33,60 EUR
286,40 – 75,00 = 211,40 EUR	320,00 – 33,60 = 286,40 EUR
211,40 – 24% = 160,66 EUR	vai 286,40 – 75,00 = 211,40 EUR
160,66 + 75,00 = <b>235,66 EUR</b>	211,40 x 0,24 = 50,74 EUR
	320,00 – 33,60 – 50,74 = <b>235,66 EUR</b>

### I-3.3. assignment „NET SALARY CALCULATION AND ANALYSIS”

Indicator (EUR) / Employee	Tom	Ann	Beth
Gross Salary	<b>1200.00</b>	<b>700.00</b>	<b>437.50</b>
Employer social tax	<b>283.08</b>	<b>165.13</b>	<b>103.21</b>
Employee Social Tax	<b>126.00</b>	<b>73.50</b>	<b>45.94</b>
Non-taxable minimum	<b>75.00</b>	<b>75.00</b>	<b>75.00</b>

Relief for dependents	<b>0</b>	<b>330.00</b>	<b>0</b>
Income tax	<b>239.76</b>	<b>71.16</b>	<b>75.97</b>
Net salary	<b>834.24</b>	<b>555.34</b>	<b>315,59</b>

### I-3.4. assignment „THE ANNUAL INCOME STATEMENT”

- 1) Receipts for the family’s trip to Sweden for the amount of 430 EUR and dental service and colleagues for the amount of 40 EUR you are not allowed to include in the income declaration.
- 2) Total eligible costs are 606 EUR.
- 3) Non-taxable minimum for one month 235 EUR, allowances on dependents 2 x 165 = 330 EUR.
- 4) Total Tax rebate is  $0,24 \times (606 + 235 + 330) = \mathbf{281,04 \text{ EUR}}$ .

### TEST 1 „PERSONAL FINANCE AND DAILY FINANCIAL BUDGETING”

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18.	<b>A</b>																																								
19.	<b>D</b>																																								

### II-1.2. assignment „RETIREMENT AGE”

1.

<i>Period of Time</i>	<i>Retirement Age</i>
01.01.2014.-01.01.2015.	<b>age 62 and three months</b>
01.01.2015.-01.01.2016.	<b>age 62 and six months</b>
01.01.2016.-01.01.2017.	<b>age 62 and nine months</b>
01.01.2017.-01.01.2018.	<b>age 63</b>
01.01.2018.-01.01.2019.	<b>age 63 and three months</b>
01.01.2019.-01.01.2020.	<b>age 63 and six months</b>
01.01.2020.-01.01.2021.	<b>age 63 and nine months</b>
01.01.2021.-01.01.2022.	<b>age 64</b>
01.01.2022.-01.01.2023.	<b>age 64 and three months</b>
01.01.2023.-01.01.2024.	<b>age 64 and six months</b>
01.01.2025.-01.01.2025.	<b>age 64 and nine months</b>
01.01.2025.-01.01.2026.	<b>age 65</b>

2.

- a) In 2017 Ann will be 62 years old, but the retirement age this year will be 63 years. Anna will be able to retire at the age of 63, 2018.

- b) In 2022 Jacob will be 62 years old, but in this year retirement age will be 64 and three months. He will be able to retire at the age of 64, on April 1, 2024.
- c) In 2013 Kallie became 62 years old, but in this year pension reform has not come into force yet. Kallie could retire at the age of 62, on December 12, 2013.

### II-1.3. assignment „INSURANCE FOR A MOTOR VEHICLE”

#### 1.

	<i>Driver of vehicle in silver</i>	<i>Driver of vehicle in pink</i>
a) Will the compensation be received? (if “No” proceed to question „e”)	<b>Yes</b>	<b>Yes</b>
b) Which company will compensate the damage?	<b><i>Insurance company „B”</i></b>	<b><i>Insurance company „D”</i></b>
c) What will be the amount of compensation?	<b>200 EUR</b>	<b>800 EUR</b>
d) Will the insurance company claim the compensation from the third party? If “Yes”, who needs to compensate?	<b>No</b>	<b><i>Yes, against Insurance company „A”</i></b>
e) Will the accident increase the price of insurance policy for the next insurance period?	<b>Yes</b>	<b>No</b>

#### 2.

**If both drivers had not taken out CASCO policies:**

The motor vehicle in silver colour that caused the accident will not receive the compensation, the car repair must be done from own expenses. The driver of the motor vehicle in pink must claim compensation of 800 EUR from insurance company “A”. The process of compensation might be longer. But in the same case as with CASCO with the insurance period, for the driver in silver colour, the price of insurance will be more expensive; however it will not influence the pink car.

### II-1.4. assignment „INSURANCE AGAINST ACCIDENTS”

<i>Insurance Premium</i>	<i>Insurance Sum</i>	<i>Self-risk</i>	<i>Compensation to be paid:</i>
<b>67.00 EUR</b>	<b>50 000.00 EUR</b>	<b>1 000.00 EUR</b>	<b>29 200.00 EUR</b>

### II-1.5. assignment „ INSURANCE FOR A MOTOR VEHICLE”

After the individual work students can be grouped. Each student group compares individual data and draws joint conclusions. For example: which insurance companies are the most beneficial and which are the least beneficial. They decide what determines the price of insurance policy, how many years are needed to get back money from CASCO insurance. All the conclusions are summed up on the board.

## TEST 2 „RISKS AND INSURANCE”

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III-2.3. assignment  
“EXCHANGE”

1.	<b>A</b>	6.	<b>C</b>
2.	<b>A</b>	7.	<b>C</b>
3.	<b>B</b>	8.	<b>B</b>
4.	<b>D</b>	9.	<b>B</b>
5.	<b>B</b>	10.	<b>D</b>

“CURRENCY”

---

2.

### Case „A”:

(Purchase of currency) The sum must be divided with the exchange rate.

### Case „B”:

(Currency sale) The sum of foreign currency must be multiplied with the exchange rate.

## III-2.4. assignment “CREDIT”

---

The sum to be repaid following the conditions provided:

- a) After one month:  $240 (1 + 0,005 \times 1) = \mathbf{241,20 \text{ EUR}}$ ;
- b) After three months:  $240 (1 + 0,06 \times 0,2) = \mathbf{243,60 \text{ EUR}}$ ;
- c) After six months:  $240 (1 + 0,03 \times 1) = \mathbf{247,20 \text{ EUR}}$ ;
- d) After one year:  $240 (1 + 0,03)^2 = \mathbf{254,62 \text{ EUR}}$ ;
- e) After two years:  $240 (1 + 0,03)^4 = \mathbf{270,12 \text{ EUR}}$ .

## III-2.5. assignment “MONEY INVESTMENT”

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*The student needs to carry out an individual research. Banking offers must be evaluated. Information about the price of shares should be collected and other investment types must be searched. Profitability and risks must be evaluated.*

*It is advisable that the student chooses the investment with highest profitability. They must be aware of risks diversify investments and invest in different financial instruments.*

## III-2.6. assignment „CAR PURCHASE”

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1.

- a) First instalment: 20% from 1100;  $1100 \times 0,20 = 220 \text{ EUR}$ ;  
The sum which will be taken as a credit:  $1100 - 220 = 880 \text{ EUR}$ ;  
The credit must be repaid after two years:  $880 (1+0,07)^2 = 1007,51$ ;  
Costs of Audi purchase:  $220 + 1007,51 = \mathbf{1227,51 \text{ EUR}}$ ;
- b) The sum is planned to be paid to buy BMW, long-term payment is planned:  $1200 - 600 = 600 \text{ EUR}$ ;

- The number of month for paying the credit on Audi:  $600 : 50 = 12$  months;
- c) **Audi costs more;**
- d) It is possible to pay **for BMW** for one year faster than for Audi;
- e) A monthly money to be saved to buy Audi:  $1007,51 : 24 = 41,98$  EUR;  
A monthly money to be saved to buy BMW (as in the assignment): 50,00 EUR;  
A monthly sum to buy BMW is larger:  $50 > 41,98$   
The difference in the sums is:  $50,00 - 41,98 = 8,02$  EUR more than BMW
- f) How much is needed to take as a credit:  $1100 - 600 = 500$  EUR  
The credit payment after five year:  $500 (1+0,07)^1 = 535$  EUR  
Total price for Audi:  $600 + 535 = 1135$  EUR – that is, it increases by 35 EUR  
A monthly sum to be set aside so that the credit liabilities are settled is:  $535 : 12 = 44,58$  EUR  
A monthly sum to be set aside the change:  $44,58 - 41,98 = 2,60$ , **A monthly sum set aside will increase by 2,60 EUR**

## 2.

Advantages:

- When buying Audi you must not invest all the money received as present, therefore you can spend that money on other needs.
- To lease BMW you do not pay interest rate.
- You can settle payment for BMW in a shorter period of time.

Disadvantages:

- You need more time to pay for Audi rather than for BMW. You need to make sure that you have the needed sum for two years. The car becomes the property of the owner after all liabilities are settled.
- To buy BMW the first instalment is higher.

### III-2.7. assignment „BANK CREDITS”

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#### 1.

Sum to be repaid at the end of the period:  
 $15\ 000 (1 + 0,01)^{24} = 19\ 046,02$  EUR

#### 2.

**Sum to be repaid if it is taken for 6 month, but not for 2 years**  
 $15\ 000 (1 + 0,01)^6 = 15\ 922,80$  EUR

### III-2.8. assignment „ANNUAL INTEREST RATE”

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Final sum of credit:

$$20\ 000 + 4\ 200 = 24\ 200,00 \text{ EUR}$$

*Annual interest rate:*

$$24\ 200,00 = 20\ 000,00 (1 + i)$$

$$24\ 200,00 = 20\ 000,00 + 20\ 000i$$

$$4\ 200,00 = 20\ 000i$$

$$i = 4\ 200 : 20\ 000$$

$$i = 0,21$$

**Annual interest rate: – 21%**

### III-2.9. assignment „PROFITABILITY OF TERM DEPOSIT”

---

The sum should be increased above inflation in order not to decrease the purchasing power of money.

Calculation:

- 1) Inflation indication in 2010 – just for information.
- 2) To keep the purchasing power at the end of 2011 you need to have  
 $1000.00 \text{ EUR} + 4,4\% = 1044.00 \text{ EUR}$ .
- 3) To keep the purchasing power at the end of 2012. You need to have  
 $1044.00 \text{ EUR} + 1,6\% = 1060,70 \text{ EUR}$ .
- 4) The purchasing power does not change in 2013, because inflation is 0%.
- 5)  $1031.83 \text{ EUR} - 1000.00 \text{ EUR} = 31.83 \text{ EUR}$ .
- 6)  $1060.70 \text{ EUR} - 1031.83 \text{ EUR} = 28.87 \text{ EUR}$ .

On January 1, 2014 the person had in the account 1031,83 EUR, that is by 31,83 EUR more than was deposited on January 1, 2011. The purchasing power at the beginning of 2011 is higher than 1031,83 EUR at the beginning of 2014. The difference is **28,87 EUR**.

It is advisable to discuss with the students the cases when it is better to invest in term deposits even with one percent annual interest rate or even a smaller interest rate. You can discuss alternative investments.

### III-2.10. assignment „FINANCIAL TERMS”

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1-D  
2-E

3-B  
4-A

5-C

### III-2.11. assignment „TYPES OF CREDITS”

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- a) Commercial credit
- b) Consumer credit
- c) State credit
- d) Mortgage

### III-2.12. assignment „BANKING SERVICES”

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Calculation:

- 1)  $67\,940 \times 5\% = 3\,397.00 \text{ EUR}$  (bank costs)
- 2)  $34\,800 \times 12\% = 4\,176.00 \text{ EUR}$  (bank income)
- 3)  $4176 - 3397 = \mathbf{779.00 \text{ EUR}}$  (bank profit)

**TEST 3 „FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS”**

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1.	<b>D</b>	6.	<b>A</b>	11.	<b>D</b>
2.	<b>B</b>	7.	<b>D</b>	12.	<b>C</b>
3.	<b>C</b>	8.	<b>C</b>	13.	<b>A</b>
4.	<b>D</b>	9.	<b>A</b>	14.	<b>B</b>
5.	<b>C</b>	10.	<b>B</b>	15.	<b>D</b>