



Project “FINANCIAL EDUCATION”

Training Material for high school teachers



In everyday life we are constantly faced with the need to make decisions about finances, so a person, who understands the financial issues and takes safe and sustainable financial decisions, is more successful than a person with no knowledge about this.

In 2012, together with partner organizations in Germany, Belgium and Austria, BA School of Business and Finance and Agenskalna Gymnasium launched a project "Financial literacy" to prepare a study material on a daily basis to help teachers of economics in secondary schools teach students about financial literacy issues, thus increasing the overall awareness of financial decisions, such as banking, credit, social security, etc. issues.

This study material is designed to assist teachers as a short summary for the learning material theoretical part. It includes questions and tasks prepared by finance experts to offer students practical work within lessons and also as homework.

Table of Contents

Personal Budget &Daily Life	4
Saving & Borrowing, Costs of money, Interest Rate	10
Wage, it`calculation and employers investment.....	14
Risks and Insurance	18
Financial institutions in Latvia, their objectives	23

Personal Budget & Daily Life

Personal budget is related to the individual's income and expenditure. On the one hand, everybody feels the need to get more money, but at the same time, sometimes forgetting that much more significant is value of money than it's amount, expressed in purchasing power - goods and services we can buy for a certain amount of money.

The most important indicator which characterizes our financial situation is a **personal budget** - money income and expenditure plan for a certain period of time, but considering that it's rare that individual lives alone, we consider the household budget - is the same household (family) income and expenditure plan for certain period of time.

Household (family) income may be very different - salaries, allowances, pensions, benefits, prizes, gifts, income from trading and many others. Similarly, the **costs** tend to be very different, so they are usually sorted major groups - food, transport, housing, clothing and footwear, communications etc. Income most often is received once a month, and a large part of the expenditure also is paid once a month, which is why the household budget is usually made for one calendar month.

Budget can be created with paper and pen, but it can also be made electronically, such as www.finansuplanotajs.lv

An important issue is the **income and expenditure planning** and analysis. Planned expenditure and income are very useful for making savings. For a person it is psychologically difficult to collect money only for savings sake. This works much better if there is a goal. For example, next year in July you want to go for a 3-day trip to Estonia with friends and this requires EUR 200. It is now August, so provisions should be established within 10 months, that means each month you have to save 20 EUR, or 5 euro per week. This way the accumulation doesn't seem meaningless or extremely difficult because you have a target and the amount of money is small.

Students are then prompted to watch a 4 minute cartoon "Curious questions about the money '<https://www.youtube.com/watch?v=aL5xaurnQPQ>

TASK 1

According to data from the Latvian Central Statistical Bureau, in 2012 household expenditure for food and non-alcoholic beverages was on average at 28% from all income. This is a major category of spending, so in order to improve households economic situation, it is important to create a food plan, evaluate and choose the most economical deals.

Task: Your parents have set up a shopping list of foods in the worksheet. Parents plan to spend on this purchase 11EUR, but if you are able to provide cheaper purchases, you can keep the amount of money saved.

Your task:

- **Find out the prices of products what are in this worksheet in various supermarkets, market, and in a small shop;**
- **Calculate the amount of expenditure in each of the shopping places;**
- **Calculate the potential savings compared to parents planned expenditure – 11 EUR.**

If this product is not available in one of the sale places, choose the alternative, but it must be indicated in the price comparison site.

To complete this task you may use information from these websites www.maxima.lv; www.rimi.lv, www.groza.lv and you can visit sopping places. Price comparison need to be done within 4 days.

When each individual task is performed, the students are divided into groups of 4 and they mutually compare prices in the same-store network and also from different markets and jointly draw conclusions about competition, the price factors that influence the food price in the store network. They also compare necessary resources for seeking alternatives (time, fuel, etc.). One person from each group presents conclusions to the entire class. Teachers identify which of the students managed to purchase scheduled products for the least amount.

Work sheet

Period of price analysis: _____

	MAXIMA address: _____	rimi address: _____	market _____	Shop „_____” address: _____
Cream Valmiera 15%  450g				
Milk Limbazi 2,5% 1l 				
Button Cesvaine 82% 180g 				
Sugar Jelgava 1kg 				
Sweet cheese 45g				
1kg bananas 				
1kg potatoes 				
White bread 400g 				
Total:				

TASK 2

A high school student Santa shared information about her last weeks finances: Parents gave her 20 EUR pocket money, she bought mascara for € 7. On her birthday grandmother gave her 20 EUR, but the parents presented her a ride to Stockholm costing 90 EUR. She had to pay EUR 30 for dance lessons, what parents gave her. Santa spent 20 EUR for lunch and on Saturday she went to the movies with Gatis, where Gatis paid EUR 8 per Santas cinema ticket and € 4 per snack.

Based on the information above, set up and evaluate Santas last week's budget:

Income	Expenditure
Total: In surplus _____ EUR	Total: Balanced With defecate _____ EUR

Evaluation and recommendations for Santa's last weeks budget:

1. Which expenditures positions in % are the biggest?
2. How much % is spent on "compulsory" payments?
3. Where and how much % could be saved?
4. If the income is greater than the costs – is she having savings?

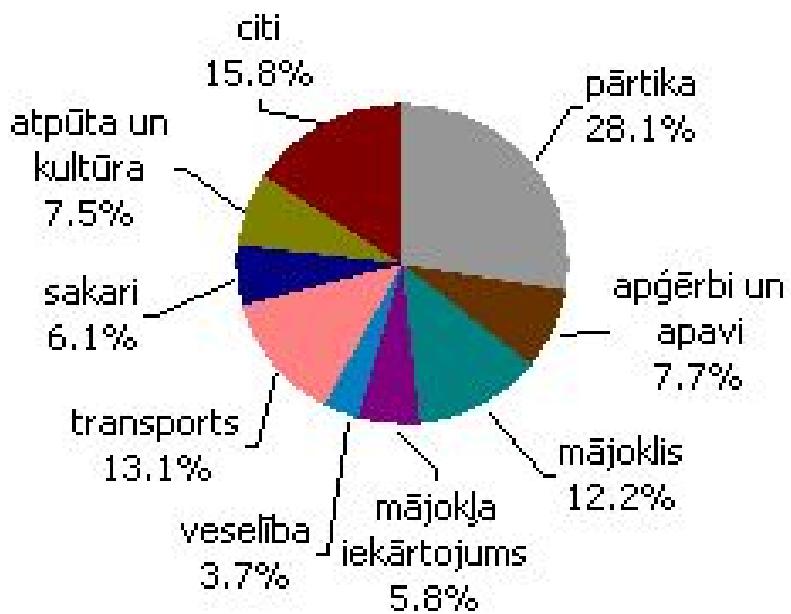
TASK 3

In March 2013 the average net (after tax) wage in Latvia was 357 LVL or 508EUR.

Let's assume that in a family both parents are employed employees, one's income is the average of net pay amount in Latvia, and the other's about 14% higher (rounded to whole LVL or EUR). The family consists of two school-age children, for each of them parents get 8Ls (11EUR) allowance a month.

Calculate the monthly income for this family:

Household expenditure structure is following:



<http://www.csb.gov.lv/notikumi/majsaimniecibu-paterina-izdevumi-2006-gada-26232.html>

Calculate money available for each position in this family:

- Food _____ EUR, assuming 30 days per month, family spending on food per day is _____ EUR;
- _____ EUR;
- Home costs _____ EUR;
- Health Care costs _____ EUR;
- Transport costs _____ EUR;
- Phone, internet ect. _____ EUR;
- Free time costs _____ EUR;
- Another _____ EUR.

Witch costs You include in group “Another”?

Let's say that half of the current expenditure 'other' parents give to children as pocket money. Calculate allowance for every child for each working day, assuming that there're 20 working days in a month.

One weeks pocket money for every child is _____ EUR.

What would be your one weeks pocket money expenditure structure and approximate amount of money for each cost element?

How you`ll change your cost structure if you`re decided that you want to buy a notebook?

What amount of money you can save every week? _____

Palm you have choosed costs 240EUR. Based on potential weekly savings, what is the length of time when you can buy it?_____

What could be your legal ways of income, that you can purchase desired thing sooner (more money from your parents currently is not possible to get)._____

Saving & Borrowing, Costs of money, Interest Rate

Both accumulation and borrowing are related to human consumption and income amount. It's possible to accumulate only if we consume less than receive, but if we have to borrow money, that means we spend more than earn. If we borrow, we use money belonging to someone else, and if we use other belongings, then we usually have to pay for that.

The fee for the use of others' money is interest, it is price for used money. The price and the required amount of money are related just like requirement for most of the goods and services - the higher borrowing rate, the lower the number of loans.

However, other important factors are time, security and other aspects. For example, to get a bank loan takes time and it is necessary to compound documents, as well as show the appropriate amount of income compared with loan amount. On the other hand fast credit offers what are presented to consumers where it's possible to get money more easily, so the price (% rate) is higher, but people are still using it.

For more information visit:

<http://www.richmanblog.com/LAT/RichmanMoney/NaudasUzkrasana.html>

<http://www.ptac.gov.lv/page/446>

Deposit profitability can be calculated with two formulas:

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

$$N = s(1+i)^n \text{ -- compound Interest}$$

N - Deposit future (final) value, s - the initial deposit amount, i - % rate per period, n - the number of periods, i and n have to be in the same scale.

Basic difference in both methods is that using simple interest calculations deposit amount is calculated only at the end, but using compound interest calculations, the deposit value is calculated at the end of each conversion and the result is taken as the start of the next period's amount. As a result, the interest earns interest and at the end of the period receivable amount will increase.

Using the compound interest method, note that n must be shown as the conversion period and i will be indicated as a single decimal conversion period.

For a bigger profit a higher number of offers have to be compared with and, if necessary, calculating the annual interest rate, because it indicates the percentage and shows if the deposit will be profitable.

Task 1.

According to the study carried out by SEB bank

(http://www.slideshare.net/SEB_Latvia/seb-banka-kam-un-k-uzkrij-baltijas-valstu-iedzotiji), in Latvia 41% of respondents are making savings.

Do you think it is reasonable to accumulate money? _____ Why?

Where (how) a person can accumulate money? _____

	Cash Accumulation at home	Money Accumulation in the bank
positive aspects		
Negative aspects		

Task 2

Let's suppose you received an inheritance _____ EUR (Teacher Notes 5 different amounts of inheritance, each similar to the number of pupils. If the number of students is large, you can specify a different currency) but in the will it's stated that the money will be available for using only after 2 years.

Using the website www.gudriem.lv/deposit fill in the tables and calculate different yield for depositing money in different banks on different terms.

amount	Most profitable bank	% rate	Second profitable bank	% rate	Most non-profitable bank	% rate
1 month						
3 month						
6 month						
1 year						
2 year						

The state offers money investment into government bonds (government bonds are issued with fixed maturity and the amount of income). Use a web site www.krajobligacijas.lv

Calculate your heritage possible profit rate in this investment way, in different time frames.

Compare and evaluate the investment of money to bank deposits and government debenture.

After finishing the task, students are divided into groups so that each group of students that each is with different deposit amounts. Student's task - to compare the results, draw conclusions about differences in profitability deposits of different sizes and a variety of deposit deadlines as well as comparable higher interest rates on deposits offered by a different financial institution. Later all group findings are analyzed together, the results are documented on the whiteboard and collectively evaluated.

Task 3

There are deposited 1000 EUR in the bank for 6 months. Banks AIR is 9%

Calculate the future value of the deposit, if the bank uses a simple interest calculation.

Calculate the future value of the deposit, if the bank uses compound interest calculation of the conversion period of 2 months.

Wage, it's calculation and employers investment

Salary can also be defined as the **working payment** which employee receives regularly for his work. Payroll accounting, form, and relevant taxes or benefits to the salaries calculation are set up by each country's legislation.

Salary for the human labor is paid by the employer. The employer is obliged to sign an agreement with the employee for employment relationship - **contract of employment**.

Employer calculates **salary** once a month unless it's agreed otherwise in the contract. An employee may get the salary and also advance payment.

Payment for work includes:

- wages;
- allowances for extra work, night work, work on public holidays, etc.
- allowance for work related to a particular risk;
- Bonus;
- other remuneration connected with the work.

Employees who are under the age of 18 have to get wage not less than the minimum monthly wage if he worked 7 hours per day and 35 hours per week.

Society often discuss the question **why Latvia has relatively lower salaries** than European countries such as Germany, Belgium, Austria.

The answer to this question is given in research made by the Ministry of Welfare "Wages and the factors influencing it." The study revealed factors what influence Latvian salaries.

Factors that determine wage rates:

- **Education.** Employees with higher education receive 24% higher salaries than those with secondary education and 80% higher wages than workers with primary education;
- **Sex.** Women are getting 21.5% lower wages than men;
- **Age.** Maximum income in Latvia is reached at the age of 30-35;
- **Latvian language skills** (not nationality!). If Latvian language is only in medium level, persons wage is 10.5% less;
- **Duration of labor relations.** Employees with 20 years of professional experience salary is on average 26.1% higher than a new employee with no experience;
- **Working hours.** Part-time workers earn 23.6% less;
- **Type of employment contract.** Workers who have an employment contract for a fixed period of time, receives an average of about 9% less than workers with permanent employment.

The **nominal gross wage** or salary is based on calculations of the tariff rates what stated in contract before various deductions are made.

Net wage is the salary amount that is paid or transferred to the employee's account.

Real wages - the amount of goods and services which can be bought for the net salary within a certain price level.

Living standards directly show real wages in everyday life, because it's significant to consume goods and services in a daily life, so it's important to know what we can buy with the financial amount that we have received as a reward for work.

Every Latvian citizen is entitled to carry and present **payroll tax book** to the employer. It has to be presented to the main workplace and person has right to receive benefits, as well as avoid to pay personal income tax from the non-taxable minimum wage.



For wage calculation there are 5 significant indicators:

- _____ % employers social tax and _____ % employee social tax;
- _____ % personal income tax;
- _____ non-taxable minimum;
- _____ relief for a dependent person;
- _____ risk tax.

For **taxes** related to the salary there has to be applied following tactics - salary is calculated, but employee does not receive it all because employer shall transfer compulsory deductions to government institutions.

To see the amount what an employee will receive, calculation must be done in a specific order:

- All calculations has to be made from the gross salary.
- Always remove employer **social security tax** first. The law states if employee has not submitted payroll tax book, then you may pay **income tax** from the **taxable minimum**. If in the payroll tax book there's recorded a **dependent person**, personal income tax may also be calculated from the amount indicated in the **relief** for a dependent person.
- From the remaining amount you have to pay **personal income tax**.

The **employer's cost estimate** is always repetitive - in addition to gross salary there's employer's social contributions added to the resulting amount and risk fee is added in addition to obtained amount.

For example, if an employee receives a gross salary EUR 300.00:

- 24,09% employers social tax and 11% employee social tax;
- 24% personal income tax;
- 45,00 EUR non-taxable minimum;
- 80,00 EUR relief for a dependent persons;
- 0,25 EUR risk tax.

If the employer has received payroll tax book and it doesn't contain a dependent person:

Employee social tax calculation: $300,00 \times 0,11 = 33,00$ EUR

From what amount there's a need to pay employee social tax?

$300,00 - 33,00 - 45,00 = 222,00$ EUR

Personal income tax calculation: $222,00 \times 0,24 = 53,28$ EUR

Net wage: $300,00 - 33,00 - 53,28 = 213,72$ EUR

If the employer has received payroll tax book and it contains 2 dependent persons:

Employee social tax calculation: $300,00 \times 0,11 = 33,00$ EUR

From what amount there's a need to pay employee social tax? $300,00 - 33,00 - 45,00 - 2 \times 80,00 = 62,00$ EUR

Personal income tax calculation: $62,00 \times 0,24 = 14,88$ EUR

Net wage: $300,00 - 33,00 - 14,88 = 252,12$ EUR

If the employer has not received payroll tax book:

Employee social tax calculation: $300,00 \times 0,11 = 33,00$ EUR

Personal income tax has to be paid from the remaining amount: $300,00 - 33,00 = 267,00$ EUR

Personal income tax calculation: $267,00 \times 0,24 = 64,08$ EUR

Net wage: $300,00 - 33,00 - 64,08 = 202,92$ EUR

Employer expenses in all cases will be the same:

Employers social tax: $300,00 \times 0,2409 = 72,27$ EUR

The employer's total cost with risk charges: $300,00 + 72,27 + 0,25 = 372,52$ EUR

Conclusion - if you are working in the workplace without payroll tax book and without an increase in the gross salary, your net monthly salary will increase for 10.80 EUR (45.00 x 0.24), while for each dependent person it's possible to receive 19.20 EUR (0.24 x 80.00).

Useful information resources on the web:

http://www.vid.lv/lv/kalkulatori/algus_kalkulators

http://fm.gov.lv/lv/sadalas/nodoklu_politika/nodoklu_un_nodevu_sistema_latvija/

<http://www.lm.gov.lv/text/52>

TASK 1

Calculate monthly net salary for Janis Klavins, considering that he has not given payroll tax book to the employer and his gross salary is € 700.00.

TASK 2

Calculate monthly net salary of Einars Liepins and employers expenses, if his gross salary is the minimal amount of Latvian minimal wage and he has given payroll tax book to the employer and there's no dependent person in it.

Risks and Insurance

Risk is a chance to lose something. We are faced with risk everyday because risks are very different. There's a chance that we can fall and break something, the risk we can buy old milk in the store, a risk that parents will not understand our desire to create a tattoo. We can be insured against some of the risks.

Life is long and throughout life human can face:

1. **Life, health and loss of income risks** – parents illness or even death, sickness, unemployment or incapacity to work.
2. **Other non-life risks** - connected with the belonging property: theft, fire or other damage, and so on.

Therefore, it is important to be aware of these risks and reduce them by using **insurance** services.

Insurance is a protection against financial losses, risk-sharing with others.

Insurance policy is a document that certifies that there's a signed contract between insurance policyholder and the insurance company.

The **insurance premium** is the policyholder payment for insurance to the insurance company.

An **insurance claim** is the amount of money received by the insured if insured event is stated in the agreement.

Self risks the amount which, even if the insured event will occur, has to be covered himself. With greater risk for the policyholder insurance premium is lower.

Latvian social security system works at two levels:

1. **National social insurance** (employer makes payments to the State budget, paying relevant taxes from peoples wages and government guarantees retirement pension and a variety of allowances in case of different diseases, and unemployment benefits).
2. **Private social insurance** (people voluntary choose private insurance products - life insurance, 3rd pension level, property insurance).

Since July, 2001 there is a three tier (level) **pension system** in Latvia, it includes the 1st tier (state compulsory unfunded pension scheme), the 2nd tier (state funded pension scheme) and the 3rd tier (private voluntary pension scheme).

The most often services, provided by the state except pension, are unemployment and sickness benefit:

The unemployment benefit is given, if:

- You have been granted the status of the unemployed;
- Your total employment period is not less than one year;
- You have made mandatory unemployment social insurance contributions for at least 9 months during the last 12 months

Sickness benefit is given, if:

- You are an employee;
- You are self-employed or you are a spouse of a self-employed person.

Useful information resources on the web

<http://www.vsaa.lv/lv/services/seniors/three-levels-of-pension-system>

<http://www.manasfinances.lv/2011/03/16/bezdarbnieka-kalkulators/>

TASK 1

To study the insurance market offer and calculate family insurance yearly expenses (or to study your family insurance service yearly expenses).

Type of insurance	Insurance sum in a year, EUR
Life un accident insurance for parents (specify the type)	
Health insurance	
Payments into the 3rd pension level	
House insurance	
OCTA insurance of car Audi (2006)	
KASKO insurance of car Audi (2006). (Additional data)	
Other insurances:	

Task 2.

In Latvia the retirement age is being gradually increased. Students are given the task to find information about the retirement age increase schedule and calculate the retirement age of three people, who are characterized in the task.

I.

Please, find the information about the retirement age increase in Latvia, starting from January 1, 2014.

II.

Calculate the retirement age (stating the person's full years and months) and the retirement date in the following situations:

1. Anna was born on March 23, 1955. She has been working since the age of 23. What age will Anna be able to retire, and when will it be? _____
-
-

2. Juris was born on January 1, 1960. He has been working since the age of 17. What age will Juris be able to retire, and when will it be?
-
-

3. Marta was born on December 12, 1951. She has been working since the age of 18. What age will Marta be able to retire, and when will it be?
-
-

III.

Calculate the unemployment benefit in the following situations: Should it be assumed that in all 14 months the salary has been the same? It is asked, as 12 months are necessary for the calculation.

1. Anna was born on March 23, 1955. She has been working since the age of 23. Anna's average the last 14 months gross salary was 545 LVL.
2. Juris was born on January 1, 1960. He has been working since the age of 17. Juris' average the last 14 months gross salary was 897 LVL.
3. Marta was born on December 12, 1951. She has been working since the age of 18. Marta's average the last 14 months gross salary was 1650 LVL.

Table of calculations

Indicator	Calculation
Work experience, years	
Initial indicator of unemployment benefit	
Amount of benefit, broken down by 9 months	

Task 3

OCTA – car owners' compulsory third party insurance – is obligatory in Latvia. With this insurance a car owner insures the risk that he can possibly harm someone else's property (usually a car). If such an event occurs, the insurance company gives indemnification to the owner of the damaged car. And the driver who caused the traffic accident has to pay only for his own car repairs.



A traffic accident occurred. A silver-colour car, crossing the carriageway at

the prohibiting light signal crashed with a pink-colour car, which was crossing the street at the allowed light signal.

The photo from: <http://puaro.lv/lv/puaro/vakar-registreti-33-celu-satiksmes-negadjumi-ir-tris-cietusie>

The driver of the silver- colour car is found guilty in the accident. The following information is known about insurance of both cars (EUR):

	OCTA		KASKO		
	Premium	Sum	Premium	Self-risk	Sum
Silver-colour car	AAS „BTA”		AAS „Baltikums”		
	40.00	3500.00	220.00	400.00	3500.00
Pink colour car	AAS „If Latvia”		AAS „Gjensidige”		
	35.00	4000.00	230.00	0.00	3800.00

It is estimated that 600 EUR are necessary for the repairs of the silver-colour car, but 800 EUR - for the repairs of the pink-colour car.

Using the given information, state:

	Driver (she) of the silver-colour car	Driver (he) of the pink-colour car
Will the insurance indemnity be received? (If the answer is „No”, then further answer only the last question).		
Which company will the insurance indemnity be received from?		
What will be the amount of the paid indemnity?		
Will the insurance company after the payment of the indemnity direct the claim of this sum to something (somebody) else? If „yes”, to what (who)?		
Will the mentioned incident raise the cost of the driver's insurance policy purchase for the next insurance term?		

What will change in the process of paying the indemnity, if both drivers wouldn't have obtained the KASKO policies?

Financial institutions in Latvia, their objectives

Money and payment development

Money has three functions – it is the means of saving, measure of value and function of payments, therefore several requirements are forwarded to the thing that serves as money – it has to be difficult to fake, comfortable to use, reliable, easily divided and others.

Today we pay, using euro and cents, but historically it was not always so.

If we speak about Latvia, then since the foundation of an independent state in 1918 euro is the sixth payment currency:



Latvia roubles, 1919



Lats, 1922



USSR roubles, 1941



Latvia roubles, 1992



Lats, 1993



Euro, 2014

The lats of the re-established Latvia were in circulation from 1993 till 2014. 500-lats banknote, issued in 1998, was the most valuable banknote in the world, but different jubilee coins, for example, „Button”, „Baron Minhauzen” and many others have gained international prizes.

Information also on:

<http://www.bank.lv/nauda/latvijas-nauda>

<http://spoki.tvnet.lv/vesture/Nauda-Latvija-20-21-gadsimta/268270>

<http://spoki.tvnet.lv/vesture/Naudas-vesture/367008>

In the world the history of money starts approximately in 75 000 B.C. Then shells, ivory and other things served as the means of exchange. It is also called as goods money. Next metallic currency appeared, initially in the form of bars, but later in coins. Then banknotes were introduced, and later - payment cards.

4.33min video is demonstrated to students <http://www.youtube.com/watch?v=TLVoV6gK8mE>

Task 1

To find out about the security features of euro, which are incorporated into banknotes, study and describe the security features of coins and banknotes.

Prepare a presentation about this theme.

A teacher demonstrates information from
http://www.ecb.europa.eu/euro/html/security_features.lv.html

Security feature	Visual depiction	Description

The target group of the task – upper-secondary school students (aged 16-19)

The length of the task – 40 minutes

The type of the task – homework

TASK 2

To find 4 Latvian folksongs, where 4 different types of payment or currencies are mentioned.

When doing the task it is possible to use www.dainuskatis.lv; www.tautasdzieimas.lv

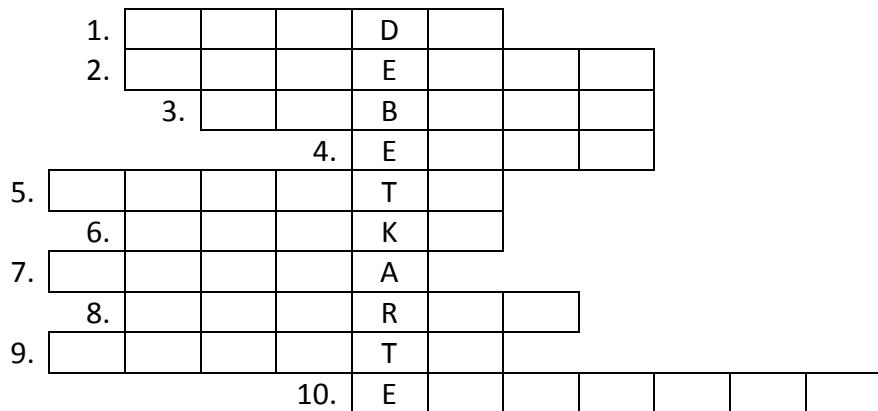
Students are offered to play the game „Which country is this coin from?”
<http://www.naudasskola.lv/lv/content/speles#item674>

and „Put together the pictures of the Latvia euro coins!”

<http://www.naudasskola.lv/lv/content/speles#item676>

Crossword

Aizpildi tukšos laukus:



1. Viss, ko cilvēki pieņem apmaiņā pret precēm, pakalpojumiem.
2. Monētas otrā puse, tā, kurā ir nomināls – skaitlis.
3. Valūta, ar kuru Latvijā varēja norēķināties no 1941. līdz 1992.gadam.
4. Valūta, ar kuru var norēķināties vairāk kā 20 pasaules valstīs.
5. Metāla naudas vienība.
6. Kredītiestāde, kura veic kredītu izsniegšanu un piesaista noguldījumus.
7. Viena no naudas funkcijām.
8. Monētas priekšpuse, kurā attēlots ģerbonis.
9. Noteiktā teritorijā lietota nauda.
10. Naudas laišana apgrozībā.

Banks and bank products

A bank is a credit institution, which attracts temporarily free money, conducts operations of payments, credits, securities and currency, as well as operations of money turnover regulation and valuable storage. In the narrow sense the word "bank" means a commercial bank, that is an institution, that provides financial services, in particular – accepting deposits, giving loans, and providing payments.

Today in most part of the developed countries (also in Latvia) there is a **two-tier banking system**, that includes the first level bank – the Central bank – and the second level banks and credit institutions – commercial banks.

In the **Latvian financial market** alongside with the banks there is a number of other financial institutions, which provide financial services like Riga Stock Exchange, depository, investment funds, investment banks, saving and loan associations, insurance companies, pension funds, pawnshops a.o.

Commercial banks make inactive operations (raising funds for the use of active operations) and active operations (giving of loans, investment of securities, currency exchange).

As with any business, the task of the commercial banks is also making profit, therefore interest rates on deposits are lower than the interest rates on loans.

To optimize their operations, commercial banks tend to pay more attention to a particular group of consumers – students, pensioners, companies of certain area – offering specific, tailor-made services. **Particular products for students by commercial banks** are *study and student loans*:

http://www.naudasskola.lv/sites/default/files/video/studentu_krediti_low_konvertets.mp4

In everyday life the most often used bank service is **current account** with a payment card and Internet bank. Banks offer **debit cards** (it is possible to pay within the finances which are in an account) and **credit cards** (it is possible to get a short time bank loan). Banks usually offer credit cards to the clients who have stable financial history and income. With the help of an **Internet bank** it is easy to make payments, contact the bank etc. Banks also give consumer credits.

The teacher can demonstrate the consumer credit calculator:
<https://ib.swedbank.lv/private/credit/loans/small?language=LAT>).

The Bank of Latvia and several commercial banks have developed interactive study materials, which can be used to improve student financial knowledge:

- www.naudasskola.lv
- www.makroekonomika.lv
- www.naudaslietas.lv
- www.manapensijs.lv
- www.nakotnespensijs.lv

Useful information resources on the web

<http://www.bank.lv/>

<http://www.nebankukrediti.lv/>

TASK 1

Try to write precisely 10 names of commercial banks in Latvia that you know:

TASK 2

Read the sentences about bank services and fill in the empty spaces:

- Using study _____, during studies and a year after the graduation you have to pay only _____, but, starting from the 12th month after the graduation, together with the loan interest you will have to repay also the principal amount of the study loan.
- It is important for a monthly loan payment not to affect the normal rhythm of life, therefore it is advisable that it _____ 40% from a family monthly income.

- You will become a car owner only after the loan has been paid – making the last payment. Until then you are just a user, but a car _____ is a lessor.
- Deposit is storage of money in banks for a fixed or indefinite time with or without interest.
- Private pension funds attract contributions with the aim in long-term _____ additional capital for one's old age.
- Currency exchange rate for each _____ is stated by the bank, and the rate may change several times a day.
- A bank both buys and sells currency, and the currency _____ rate is higher.
- Your current bank account can also be a multi-currency account, where you can hold funds in several _____

While doing the task, the information included in the homepage www.klientuskola.lv may help

*If you do not have any savings, and the expenses exceed income in a definite period of time, in order to cover them, you will need to borrow it. The borrowed money is called a loan, and the payment for using it is interest. You may borrow money from your relatives, friends, a bank, fast loan businesses, etc. When choosing a credit agreement cooperation partner, a debtor (a borrower) should pay attention to the credit **annual percentage rate (APR)**, as it indicates the cost of credit.*

The formulae to calculate the cost of credit is the same as to calculate simple interest deposit:

$$K = s (1+in),$$

where K – total sum of credit, s – initial sum of credit, i - % rate in period, n – number of periods.

To avoid currency risk, it is recommendable to register the credit in the same currency as your income, as it will decrease a possibility of your expense increase related to the exchange rate fluctuations.