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Case Studies – FINANCE





Name of theme block: FINANCE

BUDGETING

How to prepare a Budget?

Description of a problem:

Plans and aspirations drive individuals, families and businesses, but turning these visions into reality takes time and resources. Budgeting, whether for personal, family or business purposes, is essential to plan for the future while managing current needs. It helps to make informed decisions and safeguard financial well-being by taking into account short, medium and long-term goals. Learning to budget empowers you to manage your finances, save and avoid unnecessary spending, preparing you for a financially responsible adult life and fostering a sense of organisation and value for money.

Case Study 1:

Creating a budget involves planning and managing income and expenses in an organized way. The following steps should be taken in order to draw up a budget:

- 1) Identify income: List all sources of monthly income, such as salary, scholarships, aid, or any other money coming in. It's important to know how much you earn each month.
- 2) List expenses: Write down all monthly expenses, distinguishing between fixed costs (like rent, utilities, transportation) and variable costs (like entertainment, dining out, or shopping).
- 3) Set priorities: Identify essential expenses and ensure they are covered first. Non-essential expenses can be adjusted or reduced as needed.
- 4) Allocate amounts: Decide how much money to assign to each spending category, ensuring the total doesn't exceed your income. If possible, set aside a portion for savings or emergencies.
- 5) Track and adjust: Monitor your actual expenses and compare them to your budget. If you go off track, adjust the budget where necessary.
- 6) Review regularly: It's important to review your budget periodically to adjust for any changes in income or expenses, ensuring it remains aligned with your financial goals.



In the following link, you can find a template for a monthly budget:
https://docs.google.com/spreadsheets/d/17QIROMylvrChKgm-iJDeftiazls8rFey?rtpof=true&usp=drive_fs

Connected links

1. https://docs.google.com/spreadsheets/d/17QIROMylvrChKgm-iJDeftiazls8rFey?rtpof=true&usp=drive_fs
2. <https://www.wordreference.com/definicion/presupuestar>
3. <https://www.vancity.com/AdviceAndPlanning/FinancialPlanning/FollowABudget/>
4. <https://online.hbs.edu/blog/post/how-to-prepare-a-budget-for-an-organization>
5. <https://consumer.gov/managing-your-money/making-budget>

References

1. https://docs.google.com/spreadsheets/d/17QIROMylvrChKgm-iJDeftiazls8rFey?rtpof=true&usp=drive_fs
2. <https://www.wordreference.com/definicion/presupuestar>
3. <https://www.vancity.com/AdviceAndPlanning/FinancialPlanning/FollowABudget/>
4. <https://online.hbs.edu/blog/post/how-to-prepare-a-budget-for-an-organization>
5. <https://consumer.gov/managing-your-money/making-budget>



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DEBT MANAGEMENT

The 50/30/20 rule

Description of a problem:

Saving money is essential for ensuring financial stability and being prepared for unexpected events. Having savings allows you to handle unforeseen situations, such as medical emergencies, home repairs, or loss of income, without needing to rely on debt. Additionally, saving helps achieve long-term goals, like buying a house, paying for education, or enjoying a comfortable retirement. It also provides financial freedom, allowing you to make decisions without being constrained by a lack of resources. In short, saving offers security, flexibility, and the ability to plan for a more stable future.

Case Study 2:

The 50/30/20 rule is a simple and effective guideline for managing your personal finances and saving. Here's how to apply it:

- 1) Determine your net income: Calculate your monthly income after taxes and deductions. This is the total amount you have available for spending and saving.
- 2) Apply the 50/30/20 rule:
 - 50% for needs: Allocate 50% of your income to essential expenses, such as housing, food, transportation, utilities, and insurance. These are expenses you must cover to live.
 - 30% for wants: Dedicate 30% to non-essential expenses or wants, such as entertainment, dining out, travel, and purchases that are not necessary.
 - 20% for savings and debt repayment: Reserve 20% of your income for savings, investments, or debt repayment. This can include contributions to an emergency fund, savings for long-term goals, or additional debt payments.
- 3) Monitor your spending: Keep track of your monthly expenses to ensure you stay within the limits of the rule. You can use finance apps, spreadsheets, or simply pen and paper.



- 4) Adjust as necessary: If you find that you're not adhering to the rule, review your spending and adjust your consumption habits. You may need to cut back on expenses in the wants category or reconsider how to distribute your spending if your needs are very high.
- 5) Review periodically: Conduct monthly or quarterly reviews of your budget to ensure it remains aligned with your financial goals and to make adjustments if your income or circumstances change.

Applying the 50/30/20 rule will help you maintain a balance between meeting your needs, enjoying life, and saving for the future.

Connected links

1. <https://www.unfcu.org/>
2. <https://www.investopedia.com/ask/answers/022916/what-502030-budget-rule.asp>
3. <https://www.majority.com/en/community/article/the-50-30-20-rule-of-budgeting?srsId=AfmBOooQ-NUBnE7-TpaScqfj3qRnpPHfTZbDQi1AWqvlztRkln3DacIK>

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1. <https://www.unfcu.org/>
2. <https://www.investopedia.com/ask/answers/022916/what-502030-budget-rule.asp>
3. <https://www.majority.com/en/community/article/the-50-30-20-rule-of-budgeting?srsId=AfmBOooQ-NUBnE7-TpaScqfj3qRnpPHfTZbDQi1AWqvlztRkln3DacIK>



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INSURANCE

HOW TO TAKE OUT INSURANCE?

Description of a problem:

Knowing how to purchase insurance is crucial for protecting your financial well-being and reducing the risk of unforeseen economic losses, as it helps cover high expenses in the event of accidents, illnesses, or property damage. Additionally, it provides peace of mind by ensuring you are prepared for unexpected situations and ensures compliance with legal requirements, such as auto insurance. It also allows access to services, like medical care, which could be costly without coverage, and can offer long-term savings through policies that accumulate value. Ultimately, understanding how to purchase insurance enables you to customize your coverage according to your specific needs.

Case Study 3:

Contracting insurance involves following several key steps to ensure you choose the right policy for your needs. Here's a simple guide:

- 1) Identify your needs: Determine what type of insurance you need, whether it's health, auto, home, life, or another type. Consider the risks you want to cover and what you would like to protect.
- 2) Research options: Start looking for different insurance companies and compare the policies they offer. Check the reputation of insurers, coverage details, prices, and reviews from other customers.
- 3) Request quotes: Contact several companies to request quotes. Provide the necessary information to get an accurate estimate of the premium. Be sure to ask about discounts or promotions.
- 4) Review the policy: Carefully read the terms and conditions of each policy. Make sure you understand what is covered, the exclusions, coverage limits, and deductibles.
- 5) Consult an agent or broker: If you have doubts, consider speaking with an insurance agent or broker. They can help you understand your options and find the policy that best fits your needs.



- 6) Make a decision: Compare the options and choose the policy that best matches your needs and budget. Ensure that the insurance company is reliable and has good customer service.
- 7) Complete the application: Once you have chosen a policy, complete the application. Provide all the required information and ensure everything is correct.
- 8) Review your policy: After the policy is issued, review it again to ensure all the details are correct and that you understand how to use your coverage.
- 9) Maintain communication: Stay in touch with your insurance company and update them on any changes in your situation that may affect your coverage, such as changes in address, vehicle, or health.

By following these steps, you can contract insurance in an informed and suitable way for your needs.

Connected links

1. <https://segurosypensionesparatodos.fundacionmapfre.org/en/insurance/what-who-how-when-to-insure/how-do-you-take-out-an-insurance-policy/>
2. <https://www.sanlamindie.co.za/learn/5-steps-to-getting-insured>
3. <https://www.abi.org.uk/data-and-resources/tools-and-resources/how-insurance-works/>

References

- 1) <https://segurosypensionesparatodos.fundacionmapfre.org/en/insurance/what-who-how-when-to-insure/how-do-you-take-out-an-insurance-policy/>
- 2) <https://www.sanlamindie.co.za/learn/5-steps-to-getting-insured>
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Name of theme block: FINANCE

SIMPLE INTEREST vs. COMPOUND INTEREST

HOW TO CALCULATE THE INTEREST ON A LOAN

Description of a problem:

Knowing how to calculate the interest on a loan or investment is crucial for making informed financial decisions, managing your money effectively, and avoiding unexpected surprises. This skill enables you to compare different loan and investment options, plan savings more effectively, and manage debts more efficiently. Additionally, understanding how interest works contributes to your financial education, empowering you to make smarter decisions about your finances and maximize your long-term earning potential.

Case Study 4:

Calculating simple interest on a loan is a straightforward process. Here are the steps and the formula to calculate it:

Simple Interest Formula

The formula for calculating simple interest is:

$$\text{Interest} = \text{Principal} \times \text{Interest Rate} \times \text{Time}$$

Where:

- Interest: The amount of interest accumulated during the loan period.
- Principal: The initial amount of the loan (the amount of money borrowed).
- Interest Rate: The annual interest rate expressed as a decimal (for example, if the interest rate is 5%, you would use 0.05).
- Time: The period during which the loan is held, expressed in years.

Steps to Calculate Simple Interest

- 1) Determine the Principal: Identify the amount of the loan you have taken.
- 2) Know the Interest Rate: Make sure you know the annual interest rate that applies to the loan.
- 3) Set the Time: Define the time in years that you will be using the loan.
- 4) Apply the Formula: Substitute the values into the formula to calculate the interest.



Practical Example

Let's say you take a loan of €2,000 at an interest rate of 6% for 4 years.

- Principal: €2,000
- Interest Rate: 6% = 0.06
- Time: 4 years

Now, we apply the formula:

$$\text{Interest} = 2,000\text{€} \times 0.06 \times 4 = 480\text{€}$$

Therefore, the total interest you will pay at the end of 4 years is €480.

Calculating simple interest on a loan is a direct process that allows you to understand the actual cost of the loan and plan your payments effectively.

Connected links

- 1) <https://study.com/>
- 2) <https://www.bankrate.com/loans/personal-loans/how-to-calculate-loan-interest/>
- 3) <https://www.investopedia.com/ask/answers/051115/what-formula-can-i-use-calculate-interest-interest.asp>

References

- 1) <https://study.com/>
- 2) <https://www.bankrate.com/loans/personal-loans/how-to-calculate-loan-interest/>
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RETIREMENT PLANS

HOW TO MAKE A RETIREMENT PLAN

Description of a problem:

Knowing how to create a pension plan from a young age is crucial for ensuring a solid financial future. Starting to save early allows you to take advantage of compound interest, meaning you'll need to contribute less each month to reach your savings goals. Additionally, it provides greater financial security in retirement, allows you to make informed decisions about your investments, and may offer tax benefits. It also serves as a backup in case of unforeseen circumstances, contributing to greater financial peace of mind throughout life.

Case Study 5:

Creating a pension plan involves several key steps to ensure you are saving and planning adequately for your financial future.

- 1) Evaluate your needs and goals
 - Determine your retirement goals: Consider how you would like to live during retirement. What lifestyle do you want to maintain? How much money do you think you'll need?
 - Consider life expectancy: Ensure you plan for a sufficient period, keeping in mind that you may live several decades after retiring.
- 2) Create a budget and analyze your current finances
 - Review your income and expenses: Assess your current financial situation, including income, expenses, and debts. This will help you identify how much you can allocate toward saving for your pension plan.
 - Establish an emergency fund: Before starting to save for retirement, ensure you have an emergency fund that covers at least three to six months of expenses.
- 3) Choose the type of pension plan
 - Individual Pension Plans: Research options such as Individual Retirement Accounts, or private pension plans that suit your needs.
 - Take advantage of employer-sponsored pension plans: If your employer offers a pension plan, consider participating, especially if they provide matching contributions.



- 4) Determine your investment strategy
 - Diversification: Choose a mix of investments (stocks, bonds, mutual funds) that align with your risk tolerance and time horizon.
 - Rebalancing: As you approach retirement, consider adjusting your portfolio to reduce risk.
- 5) Establish regular contributions
 - Automate your contributions: Set up automatic contributions to your pension plan to ensure you are consistently saving.
 - Increase your contributions over time: If your income rises, try to increase your pension contributions as well.
- 6) Review and adjust your plan regularly
 - Monitor your progress: Review your pension plan at least once a year to ensure you are on track to meet your goals.
 - Adjust as necessary: If your financial circumstances change, modify your plan and contributions accordingly.

Creating a pension plan involves careful evaluation of your financial needs, selecting an appropriate plan type, and implementing a saving and investment strategy. Starting as early as possible will allow you to take advantage of compound interest and ensure a more comfortable and secure retirement.



Connected links

1. <https://www.nerdwallet.com/article/investing/retirement-planning-an-introduction>
2. <https://www.investopedia.com/terms/r/retirement-planning.asp>
3. <https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/checklist-things-to-do-as-retirement-approaches>

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1. <https://www.nerdwallet.com/article/investing/retirement-planning-an-introduction>
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