

Understanding Household Economy

R. Narayana Kumar

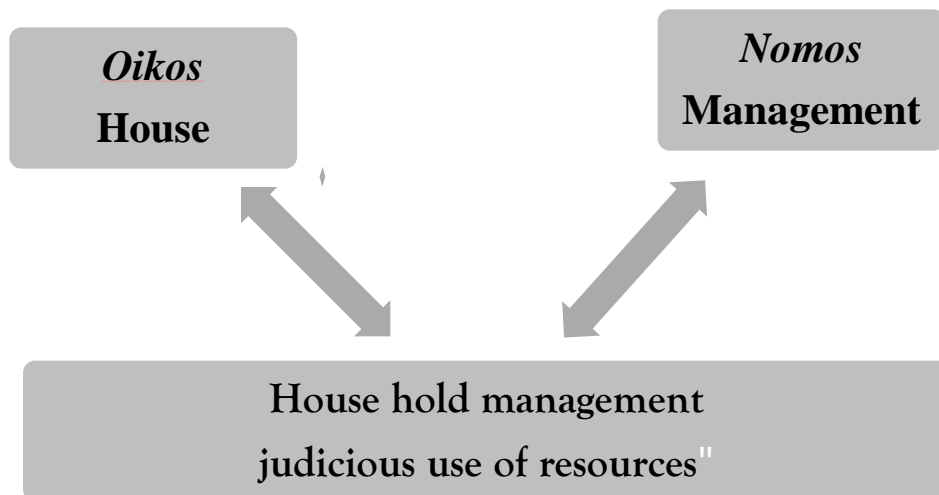
Principal Scientist & HOD, SEETTD, CMFRI

*“varavuyetanaselavupathana, athigamrendanna,
kadaisiyilthunthana, thunthanathunthana”*

[Kannadasan](#), Film *Bhama Vijayam* (Tamil), 1967

Household economy is the strength of our nation. The above words from a film song advise the people to restrict their expense within their means of income. If it exceeds, he or she has to be in trouble. This is the fulcrum for any economy be it a household or nation. Everyone has to accept that our nation is made of millions of households, which has their own management methods.

Economics is derived from two Greek words *Oikos*-meaning House and *Nomos*-meaning management. Hence the term economics mean House hold management may be involving judicious use of resources



Why to understand household economy

This is required for smooth running of the family or household. One has to understand the components of the economy as well as their inter-relationships. Of course, certain attributes of household management is imbibed over generations and certain from our own experience or learning from others. An insight of the household management is very much essential to overcome the sudden or unforeseen challenges that one might have to face during the life time.

Components of household economy

The components of house hold economy can be broadly grouped as (i) income; (ii) expenditure; (iii) savings and (iv) indebtedness.

Income

In a household, income is received from various sources. It depends on the avocation of the members of the household. The major sources of income are as follows.

- a) **Salaries:** This may be monthly or weekly as the case may be. The salary is a fixed income if it is from an organized source of employment.
- b) **Wages:** Payment received for doing some services like domestic help, labour work in farms etc.,
- c) **Pensions:** If an elderly member, who retired from any government or quasi-government services, which are pensionable, will receive pensions, which can be treated as a source of income.
- d) **Service charges:** This relate to mostly helping or assisting services like plumbing, electricity repair, repairs of motors, electronic gadgets and related services.
- e) **Interests from savings or deposits or loans advanced:** Interests in the amount deposited in the banks as well as the interest earned through lending money in the local environments.

Expenditure

Expenditure includes the amount we spend for our needs and requirements. It includes the expenses on **basic amenities as well as other medium and long term needs**. The expenses on basic amenities include expenses towards, food, clothing, shelter, fuel, electricity and water.

- a) *Basic amenities*



The expense towards basic amenities is very much essential and which cannot be compromised or altered but have to be adjusted within our limits of income. The expenses on food can be further sub-divided into its components namely, cereals, pulses, vegetables, milk, fish and meat, oils and others. Some of these components like vegetables, milk, fish & meat are purchased daily and the remaining on weekly or monthly basis.

b) Other requirements

This include expenses towards education of the children in the family, medical expenses of the family members, expenses towards social commitments, entertainment (TV, cable etc), loan repayments, anticipated and emergency expenses. Among these the education and medical expenses are very important and they are to be met with based on their needs and time of requirements. The expense on social commitment is an important component of the fishing community as it forms the basis for a social and economic security among them. The emergency expenses or contingency expenses like to make a sudden trip to a relative, to meet your wards in college or hostel immediately or if someone has met with an accident and has to be treated immediately and related aspects.

Savings

Savings is normally done when we have a surplus over expenditure. The excess over expenditure is normally used as direct cash savings or indirect savings through investment in immovable assets or in gold or in shares. We should be proud to note that our domestic savings in post offices (significant proportion in rural areas) has helped to support the Indian economy at the time of global crisis in 2008. (Compiled from series of essays Shri.S.Gurumurthy, appeared in newspapers and magazines 2009)

Sources of savings

People save in whatever method that is feasible to them. In some villages or small towns, they save with local trusted people or the *chittiesrun* by such trusted people. Gradually they were taken by the post office savings banks in the country. Despite the lowest interest offered by the post office savings bank, people prefer to save in them due to the trust they had developed in them and also the comparatively easier access and procedure to withdraw money during their dire needs. The rural households contribute a significant share in the post office savings.



In the urban localities, people prefer saving money or deposits in banks compared to post offices. The banks have also been formulating various schemes to attract the investors to keep their money with them (the banks). In cities and metros, the investment in share markets is comparatively higher. Of late, the investment in mutual funds is also advised as a better method of saving for a secured and sustained income earning at a later point of time. In spite of all such instruments of savings and investments, still a section of people prefer to save in gold and land properties as a great source of economic security for the future.

Indebtedness

a) Reasons for indebtedness

Indebtedness arises, **when** expenditure overtakes income. The situation may arise due to many reasons such as availing loans for children's education or marriage or settlement; house construction; medical expenditure; Short term losses in their enterprises like some retail sales, marketing and running *petty* shops; unforeseen situations like someone falling ill suddenly and such related incidents.

b) Sources of money to get loans

The first and foremost source is from friends and relatives, who are known and nearby and also they will give money without any interest rate. This is followed by local money lenders, who charge interests for the amount advanced. In a few cases loans are advanced against any collateral securities like gold, land or any other immovable properties. Such facilities are provided by pawn brokers, banks and other non-banking finance institutions (NBFC's)

Monthly budget

A budget is a comprehensive statement of your income and committed expenditures. Budget is important for every household and thus the nation. Because, budget helps to plan your finance every month and also assess your financial status at the beginning of every accounting period or month. Budget also help to identify your sources of income and anticipated expenditure.

How to prepare the monthly budget?

As a first step, list down your commitments and prioritize them to match your income. If the difference is positive, think wisely to save or invest for future. If you have deficit, find out how you can bridge the gap with your existing situation. This exercise will help you to plan your finances wisely. A sample format of a monthly budget is given below.



Specimen Format of a monthly budget

Month: July 2017

Income side			Expenditure side		
Sl.No	Items	Amount	Sl.No	Items	Amount
1	Salary		1	House rent	
2	Interests		2	Food, fuel	
3	Pension			Water& electricity	
4	Others			Others	
	Total (Income)			Total (Expenditure)	
(Income)- (Expenditure) = Surplus or Deficit					

Few guidelines for effective economic management of household

- 1. Home deposit(s):** Save money as much as possible and keep it is home deposit. Here the small balances that you received after major purchases, the amount got through resale of old newspapers, note books and old items and related components. Such amount(s) though may look very small, will grow to a bigger amount in due course and will come in handy for any emergency that you may face.
- 2. Join in local chits of leading and trustworthy cooperative societies:** This will help to improve your savings and your interest to go for some short term investments like purchase of a plot, ornaments for your kids, purchase of some costly consumer durables and related items.
- 3. Save in un-reachable place:** This is more of a physical exercise to inhibit one from spending much. For example, save some amount in a small box kept inside a grocery box in the top cupboard whenever you get some savings. Keep it at a place where you cant take it directly and need some one's help to take. This will forbid you from using that amount very frequently and thus you can save a good amount of money. Again open a savings bank account in a bank, comparatively far away from your home and make it a practice to save a considerable amount (higher than the transport cost of reaching the bank!!!) every month. You can visit the bank only once a month. This will see that your amount is growing slowly and will offer you pleasant support at the time of need at a later date.
- 4. Curb urge to frequent shopping:** With the onset of super markets, hyper markets, malls, the tendency to go for frequent shopping is on the rise. This practice gradually wipes your hard earned savings under your nose. Curb such impulses to go for frequent shopping will help to save a lot of amount, which can be utilized for most productive purposes. **Please remember if you have Rs.99,99,999, you are not a**



crorepathi. But the one rupee added to it only makes you crorepathi. At that time, the value of one rupee saved is much more than its face value (Learnt from my College Dean (Late)Dr.T.Kumarasami, Agricultural College and Research Institute, Madurai, College day, 11.11.1987)

5. **Collective periodical and group purchase:** This was a prevalent practice in villages and in a few small towns a few decades earlier. The women in the household will join together after the harvest and plan for wholesale purchase by pooling the amount. They will get good quality products as well as benefits of economies of bulk purchase.
6. **Invest in social marketing:** Again an expansion of group purchase involving a bigger dimension like a community or society. A group can be formed to get the requirements of the entire community and go for collective purchase and also the distribution. May a little different from a cooperative society in the sense that this group may be informal without much official obligations and run mainly on mutual trust and confidence.

Conclusion

The purpose of this exercise is to help you to plan your finances effectively to run the machine of life smoothly. Just like machinery requires periodical maintenance to run smoothly, your household economy also requires periodical planning and review to run the life smoothly without break-down. For this a good planning is required. Plan at least for an year ahead. List your sources of income and committed expenses. From these two estimate the surplus (or) deficit and plan your strategy accordingly. This exercise will forewarn you about the possible challenges that you may face and prepare yourself to face and overcome them.

