FAMILY FINANCIAL MANAGEMENT AND ECONOMIC STRATEGIES

Introduction:

Among the various material resources available in the family, money is the main resource, which is required to be managed to achieve the family goals of healthy, wealthy and happy family life. Managing family income is one of the important activities of home management. In order to achieve the family goals it is essential to learn to manage the finance, which is prerequisite to all household activities. Family income management enables the family members to know, understand and spend the money earned and also to plan saving for the future. Family income management thus, includes the basic concept of understanding the family income, sources of family income, need for supplementing family income, importance of keeping household accounts and finally the need for savings and types of various savings for future.

Money management:

There are two sides to the money management equation:

a) Income
b) Expenses

Income brings money into a family while expenditure takes money out so that it is not available for anything else. If one can do all that can be done to manage the expenses probably by that, possibly living on beans and rice for a season – then they might need to look at the income side of the equation. In other words, it might be needed to increase the income in addition to cutting the expenses.

Family Income:

The family income includes all the goods and services from various sources such as salaries of the members of the family, income from land or other immovable property owned by the family. Scholarships, gifts, etc. are also included in the total income of the family. Even money saved by the use of home-grown vegetables and other agricultural products will form part of the income of the family. Services such as rent-free houses, free servants, free transport, free medical facilities etc. are also included in the total income of the family. Money saved from these free services will be added to the income of the family.

Family income is divided into three types,

a) Money Income: In the modern world, work is paid for in terms of money. The family gets money income in the form of salary, pensions, wages, dividends, interest and rent. Money income is used to buy goods and services required for daily living and past, saved for future use.

b) Real Income or Non-money: Real income is derived as a result of efforts put in by the members of the family, without the use of money income

c) Psychic Income:By the use of money, goods and services are obtained in order to fulfill the needs of the family members. Thus it brings satisfaction to its family member which is called "Psychic income".

Family Expenditure:

Whatever money we spend from the income for buying various things to fulfill our needs is called expenditure

- Food
- Housing
- Clothing
- Education
- Transport
- Medical Expenses
- Entertainment
- Others

Family finance and opportunity cost:

In microeconomic theory, the opportunity cost of a choice is the value of the best alternative forgone, in a situation in which a choice needs to be made between several mutually exclusive alternatives given limited resources. Assuming the best choice is made, it is the "cost" incurred by not enjoying the benefit that would be had by taking the second best choice available. In the context of family, there arises need for choosing among various demands of family member. These needs may be of necessaries, comforts, emergency needs etc. But then the income restricts to choose among alternative expenditure, where the cost incurred by not enjoying the benefit that would be had by taking the second best choice available. For example, need for children's education brings opportunity cost to parents by foregoing their desires to have comfort life. Thus, the income should be well managed as to reduce opportunity cost and finance should be availed to meet maximum family needs.

A benefit, profit or value of something that must be given upto acquire or archeive something else. Since every resource (land, money, time, etc.) can be put to alternatives uses, every action, choice or decision has an associated opportunity cost.

Oppotunity costs are what you could have done instead of doing what you did. Say you are a lawyer who normally makes $500/hour. You could hire someone to paint your house for $1200 or spend only $300 and 8 hours painting it yourself. However the opportunity cost of 8 hours of lost wages is $4,000 so saving $900 is not really worth it. In effect choosing to paint the house yourself cost you $3,100 in lost opportunity costs

Family income and cash flow management:

While the study of some aspects of family financial management has a long history, detailed examination of families' cash flow management is of recent origin. The cash flow management behavior of families has rarely been studied at all. The definitional characteristic of normal income families is that they have less money and, thus, greater difficulty in maintaining an adequate level of living. It is important to understand how they manage the fewer amount they have in today's complex, constantly changing financial environment. The potential problems of normal income families with cash flow management and their need for help in managing their more meager resources are reasons they should be singled out. Family financial management is the planning, implementing, and evaluating behavior involved in the allocation of families' current flow of income and their stock of wealth toward the end of meeting the family's implicit or explicit financial goals.

Economic strategies:

Family finance management like other management processes involves planning, controlling and evaluation. The main objective of this is all round development of the members of the family, enhancing their happiness and health by making best use of the income of the family. To achieve these goals both husband and wife should prepare the family budget together considering their source of income, expenditure and need for future savings for their families.

- **Household Accounts**

Financial planning and execution is important to all families and a day-to-day business of the household manager. In the present day economic scenario may be at the national level or a single family, management of money is the most crucial and complicated affair involving the achievement of common goals and long term program in family life.

Keeping records of the expenditure incurred in the family is an important feature of family finance management. Records or account keeping helps to make better plans and controls can be executed intelligently. Even simple records consistently and carefully kept will help one to ease the process of finance in a family.

Household accounts are essential short term records showing the expenditure of realized income in terms of money or cash expenditure and in terms of real income where goods form an appreciable part of the realized income. Hence household accounts are referred to records of current cash expenditures from family income i.e. the daily income and expenditures of the family.

- **Supplementing Family Income**

Supplementing family income implies the additional earnings or income for the family, apart from the regular family income. Money is not always available to a family in the same amount all the time. For variety of reasons the family may need to seek ways and means of obtaining additional income in order to make both ends meet. This need arises if the expenditure exceeds the total of the assured and probable income.

Generating supplementary family income is often dependent upon the interest, attitude, abilities, skills and talents of the members of the family. It requires time and energy to take an extra work and earn additional income. More than anything else, it is the attitude of the family members to earn extra to enjoy life or to keep for the rainy days. Skills or knowledge can be utilized for the production of goods or may be shared with others in the form of tuitions, classes in working, sewing, painting drawing, music or handicrafts, kitchen gardening and day care centers, etc. Overtime work or additional part time employment may also be resorted to.

There can be very many factors, which affect in earning the additional increase for the family. However, one need to consider the following points, while preparing for supplementing family income, in order to avoid any future problem. There are-

- Availability of the time, space, energy and small amount of money to invest to earn more.
- Availability of space, support and assistance of varied nature.
- Unforeseen risks involved.
- One's own interest, education, abilities & skills to carry it out to earn more.

- **Savings:**

"Savings are the means to an end". It represents the provision made at any point of time for use at a later time. These are the difference between earnings and expenditure of the family, which is kept as savings for the future use. There are several reasons and need for savings, some of them are foreseeable while others are not. Provision for old age, children's education marriage, house to stay after retirement and medical expenses are some of the common reasons for a family to put money by way of savings. On the other hand, there are often contingencies which are not foreseeable.

An accident of the main breadwinner of the family may lead to sudden drop in the income of the family. Even illness in the family may mean that expensive treatment require more money to spend, which only savings can fulfill these requirements.

Moreover, savings can itself be made to earn, more money. Savings are must for any householders, which has to be planned and understood properly both by the husband and wife for their own future wellbeing. It is however, essential to understand what and how to do savings for better return, as savings if kept idle, do not give any benefit. In olden days, savings used to be in the form of gold and jewelry. Gradually other forms of use of savings were inexistent, such as various forms of bank deposits mutual funds, saving certificates, postal deposits and insurance policy etc. In India jewelry or gold still continue to be considered as the best form of savings for the family.

- **Spending plan or budget:**

It is actually a list of requirements of all the family members, with the money allocated for each item to fulfill these needs. To be able to do this you must also know the income of a family. If we do not make a spending plan, we are likely to spend more than what we have. So, if our expenditure is greater that our income it may lead us to borrow money to fulfill needs.

Each family has its own needs which are different from those of other families. (Even your needs as a student for books, copy, pencil pen, eraser etc. will be different from other students). How much a family spends on the different items depends on many factors.

- Income- The total family income from all sources will basically help to decide howmuch can be spent on various items. More the income more will be the moneyspent for purchasing different items.
- Size of family- More the number of family members more will be the expenditureon food and clothing. Hence, the family will be able to spend less on entertainmentand luxuries etc.
- Age of family members- If there are school going children, expenditure oneducation, school uniform, stationary etc. will be more.
- Place of residence- In big cities like Delhi and Mumbai, cost of living, food, houserent, travel expenses and school fee are higher than in small towns and villages.

- Skills- If some family members have certain skills like making preserves or doinghousehold repairs like repairing electrical equipments, carpentry etc. then thefamily will have to spend less on getting the repairs done.
- Savings- Keeping in mind the future needs.

RETURN ON INVESTMENT:

Return on investment, or ROI, is the most common profitability ratio. There are several ways to determine ROI, but the most frequently used method is to divide net profit by total assets. So if your net profit is $100,000 and your total assets are $300,000, your ROI would be .33 or 33 percent.

Return on investment isn't necessarily the same as profit. ROI deals with the money you invest in the company and the return you realize on that money based on the net profit of the business. Profit, on the other hand, measures the performance of the business. Don't confuse ROI with the return on the owner's equity. This is an entirely different item as well. Only in sole proprietorships does equity equal the total investment or assets of the business.

INVESTMENTS COST

Investing in an education savings plan that truly supports your commitment towards your child's future and ensures that you can say "yes" to their dreams.Education costs are generally prone to higher inflationary rates not just in the India but across the globe. Aside from college fees, your child is also going to need access to the right resources and technology to support their education.For parents or students who have a number of years until college begins, it means your savings plan needs to account for increased future college education costs. In addition, hidden costs such as the cost of parents' travel to visit their child if he or she is studying abroad, international phone calls and personal expenses, among many others, need to be accounted for during the planning stage. Preparing for the cost of college is one of the most important investments you'll ever make for your child.Investments, like your children, will grow in no time. As a parent with a vision of the future, you must start saving for your child's higher education as early as possible.

CONCLUSION

In today's uncertain economic times, there is renewed interest in how families teach their children life-long financial management skills. Additionally, schools and higher education institutions are considering their obligations to either enhance what is learned at home, or in some cases, fill in the gaps due to inadequate or ineffective family financial socialization. Consistent with existing literature, college students' reflections clearly demonstrate that families play an important role in the development of financial competencies from an early age. Moreover, emerging adults are able to recall both positive and negative lessons learned and messages delivered from their families. Parents should be cognizant of how their positive and negative behavioral modeling impacts their children from early childhood through the emerging adulthood phase of development.