

CLASS 9 SOCIAL SCIENCE

Chapter 5 – Managing Your Personal Finances

Part 2 • Understanding Society: India and Beyond • New Syllabus 2026–27

NCERT Exercise Solutions

Questions and Activities – Pages 121–123

These are student-friendly model answers. Activities involving local prices, market returns or family choices may have different valid answers; sample answers are provided for guidance.

Question 1

Why is managing money wisely important for all individuals irrespective of their income?

Answer: Managing money wisely is important because income is limited while needs and wants can continue to arise. Careful financial management helps people plan expenses, save for future goals and emergencies, avoid unnecessary borrowing and make informed decisions. The basic principles of budgeting, saving and responsible spending are useful at every income level.

Question 2

How can budgeting help people balance their present needs with their future financial goals? Give examples.

Answer: A budget divides available income among essential expenses, savings and other planned spending. It helps a person meet present needs without using all the available money and makes it easier to save regularly for future goals.

Examples:

- A student can budget monthly pocket money for school supplies while saving for a bicycle.
- A family can pay household expenses while setting aside money for education or emergencies.
- A person can reduce unnecessary purchases so that a planned amount is available for a future goal.

Question 3 – School Reopening Budget Activity

Your parents have given you ₹3,000 to prepare for the new school year. Make a list of the items you need, find their prices and prepare a budget. Calculate the total cost and check whether it stays within ₹3,000.

Sample answer: Prices vary by shop and location. The following is one possible budget within ₹3,000.

Item	Sample Amount (₹)
School bag	600
Books	550
Uniform and shoes	900
Notebooks	300
Pens	100
Pencils	50
Art supplies	150
Water bottle	200

Total Expenses	2,850
Amount Remaining / Savings	150

Check: ₹2,850 is less than ₹3,000, so the budget stays within the given amount and leaves ₹150 unspent. A different set of realistic local prices is also acceptable.

Question 4

Why is saving alone often not enough to build wealth in the long run? How do investments help increase the value of money over time?

Answer: Saving is essential because it provides money for future needs and emergencies. However, simply keeping money aside may not increase its value enough to keep pace with inflation. Investments can potentially generate returns, helping money grow over time. Compounding can further increase growth when returns are reinvested.

Important: Investments involve different levels of risk. Higher potential returns are not guaranteed.

Question 5 – Investment Planning Activity

Suppose you received cash gifts worth ₹3,000 on your last birthday and decided to save ₹1,500. Compare possible returns if ₹500 is invested in a fixed deposit, ₹800 in the stock market and ₹200 in gold. Try other combinations and explain why each option may be suitable or unsuitable.

Model answer: The activity is designed to make students compare risk, return, time horizon and liquidity. Actual returns change over time, so there is no single permanent numerical answer. For classroom practice, an illustrative calculation can be used.

Option	Amount (₹)	Illustrative annual return*	Illustrative gain (₹)
Fixed deposit	500	7%	35
Stock market	800	10%	80
Gold	200	5%	10
Total invested	1,500	—	125

*These rates are **illustrative classroom assumptions only**, not current market rates or a prediction of returns. Actual returns depend on the investment and time period.

Why might each option be suitable or unsuitable?

- **Fixed deposit:** may suit someone who values predictable returns and relatively stable value, subject to the deposit terms.
- **Stocks:** may offer higher potential returns but prices can rise or fall significantly, so they involve greater market risk.
- **Gold:** can diversify a portfolio, but its price also fluctuates and it does not provide a guaranteed return.

Conclusion: A suitable investment depends on financial goals, risk tolerance, time horizon and liquidity needs. Students should use reliable sources and not assume that past or illustrative returns will continue.

Question 6

How does inflation affect the value of money over time? Why should people consider inflation while making financial decisions?

Answer: Inflation means that prices of goods and services generally rise over time. As prices increase, the same amount of money may buy fewer goods and services, so its purchasing power falls. People should consider inflation when planning savings, investments and long-term financial goals because the future cost of goods and services may be higher than today.

Question 7

Different investment options involve different levels of risk and return. Do you think taking higher risks is always the best way to earn higher returns? How should a person decide which investment option is most suitable for them?

Answer: No. Higher risk does not guarantee a higher return, and an investment can also result in a loss. A person should consider the following before choosing an investment:

- financial goal and amount needed
- risk tolerance
- time horizon
- liquidity requirement
- potential return and possibility of loss
- terms, costs and features of the investment

For example, money needed soon for an emergency may require greater liquidity, while a long-term goal may allow a person to consider investments with different risk characteristics. The choice should match the individual's circumstances rather than simply choosing the highest-risk option.

Question 8

Why do people buy insurance policies even though they may never face a major loss? How does insurance provide financial security?

Answer: People buy insurance to protect themselves against the financial consequences of uncertain events. Even if a major loss never occurs, the policy provides protection during the period covered by the contract. By paying a premium, the policyholder transfers specified financial risks to the insurer according to the policy terms.

For example, health insurance can help cover eligible medical expenses, while life insurance can provide financial support to dependants after the death of the insured person, subject to the policy conditions.

Question 9 – Family Financial Planning Activity

Imagine your family receives ₹1,00,000 from farming, a small business, livestock sales and savings. Help your family decide how to use the money wisely.

Step 1: Prepare a Budget – Sample Answer

Category	Amount (₹)	Percentage
Savings	20,000	20%
Education	15,000	15%
Household expenses	20,000	20%
Health and emergency fund	15,000	15%
Farm or business investment	20,000	20%
Home improvement	5,000	5%
Festivals and recreation	3,000	3%

Other	2,000	2%
Total	1,00,000	100%

Note: This is one reasonable sample allocation. Families may choose different amounts depending on their actual needs, income sources, debts and goals.

Step 2: Needs vs Wants

Expense	Sample classification	Reason
School fees	Need	Education is an essential planned expense.
New mobile phone	Want	A new phone may be desirable if the existing one still works.
Better seeds or livestock feed	Need	These can support farm/livelihood activities.
Festival celebrations	Want	Celebrations are important to many families but can be adjusted according to the budget.
Water storage tank	Need	It can support an essential household water requirement.

Step 3: Save for the Future

Suppose the family saves ₹30,000 at **8% compound interest per year**. Using $A = P(1 + r)^n$:

$P = ₹30,000$; $r = 8\% = 0.08$; $n = 5$ years

$A = 30,000 \times (1.08)^5 \approx ₹44,079.84$

Interest earned = ₹44,079.84 – ₹30,000 = ₹14,079.84

Therefore, after five years the amount would be approximately ₹44,080, assuming an annual 8% compound rate throughout the five-year period.

Step 4: Save First, Spend Later

The principle can be written as: **Expenses = Income – Savings**. If the family receives ₹1,00,000 and saves ₹20,000 first, ₹80,000 remains available for planned spending.

Saving first helps ensure that future needs and emergencies receive attention before all the available income is spent.

Step 5: Reflect – Sample Answers

1. What percentage of the money did you save?

Using the sample budget, savings are ₹20,000 out of ₹1,00,000, so the saving percentage is **20%**.

2. Which expenses were needs and which were wants?

School fees, essential household expenses, health/emergency needs and productive farm/business spending can be treated as needs. Festival/recreation spending and a replacement mobile phone may be treated as wants, depending on circumstances.

3. How can savings improve a family's financial security?

Savings can provide a reserve for emergencies, education, planned purchases and unexpected expenses. They can also reduce dependence on borrowing.

4. How does compound interest help money grow?

With compound interest, returns are added to the principal, so later returns can be earned on both the original money and earlier returns. Over time, this can increase the accumulated amount.

Challenge – Pie Chart: Use the Step 1 percentages to draw the pie chart: Savings 20%, Education 15%, Household expenses 20%, Health/emergency 15%, Farm/business investment 20%, Home improvement 5%, Festivals/recreation 3%, Other 2%.

End of NCERT Exercise Solutions • Chapter 5 – Managing Your Personal Finances