

FINANCIAL LITERACY, INTERRELATIONSHIP OF POPULATION INCOME AND EXPENDITURE

¹Ziyodullaev Navruzбек, ²Ziyodullaeva Makhliyo

¹A master student of Denau Institute of Entrepreneurship and Pedagogy
navruzбек@dtpi.uz

²A student of Denau Institute of Entrepreneurship and Pedagogy
<https://doi.org/10.5281/zenodo.10433422>

Abstract. *In this article, the concept of financial literacy, its definition, the importance of financial literacy, why financial literacy is important and how it can be learned have been mentioned. The correct distribution of income and expenses of the population, the importance of savings in increasing the income of the population, different methods of savings and their advantages were considered.*

Keywords: *Innovation, creative way, money, savings, central bank.*

Introduction

As society develops, so do its needs, and as a result of these needs, discoveries are made. For example, the increased need for land started the era of great discoveries: the American continent was opened, steam engines were invented, airplanes were created, and all this began with the need of a person for something.

Although it is difficult to determine the exact size of global financial illiteracy, as a result of research by the "Federation of International Accounts" [1] it was found that financial literacy has several negative economic and social effects on society:

Reduced savings and investment, as financially illiterate individuals often lack the knowledge to make informed savings and investment decisions, which can affect economic growth at the national level and limit access to financial services ;

For people with limited financial knowledge, who are more likely to make poor borrowing decisions, the inability to accurately assess high debt and bankruptcy rates leads to their financial crisis. Nevertheless, high bankruptcy rates and loan defaults not only affect individuals but can also have negative effects on the financial system;

Financial stratification of the population, as financial illiteracy often affects low-income and wealthy populations differently. This in turn perpetuates poverty and exacerbates income inequality.

Nowadays, the population of Uzbekistan also feels the need to increase their income, which in turn makes them make something new or discover, or if not, bring to Uzbekistan discoveries that are not yet in the territory of Uzbekistan, but have achieved good results abroad. should be encouraged to come. In short, the population needs to bring innovation to life in a creative way to increase their income. It is a pity that while developed countries are even exploring other planets, the people of Uzbekistan are still earning income by physical labor in the same traditional way. Increasing the intellectual potential of the population by turning ideas into projects and applying them to real life is the starting point of innovation. There is no need to rediscover something that has already been discovered, its modernization, improvement, or adaptation to the nature of Uzbekistan will also contribute to globalization. In addition to applying the latest achievements of

science and technology to life, the need to train highly qualified specialists is one of the urgent issues of our time.

Materials and study of this topic

Until now, there is no clear measure of financial literacy. However, in the preparation of the article we mainly used methods such as abstraction, concretization, comparison, economic analysis - analysis, synthesis, induction, and deduction.

Abstraction - force majeure problems arising in the use of websites or books to increase the financial literacy of the population are abstracted.

Concretization - it has been revealed that a population with increased financial literacy can avoid all kinds of financial problems, debt swamps, bankruptcy cases, fraudsters' traps, and other financial losses.

Comparison - a population with good financial literacy was compared with a population with poor financial literacy.

Analysis: analysis - as a result of the increase in financial literacy of the population, the increase in the financial standard of living of the population was analyzed.

Life examples, real problems, theoretical foundations, and methodological approaches in the study of the topic constitute the methodology of the article.

Lee Kuan Yew[2], Lee Myung Bak[3], Adam Smith[4], Larisa Burakova[5], and others are among the foreign statesmen who made important contributions to the study of the theoretical foundations of population income growth, can be mentioned separately. Also among American and European Union scientists who conducted scientific activity on population incomes and prospects for their increase, Stuart T.E. [6] and Perkmann M. [7], Jin, P. [8] would be appropriate.

It is permissible to list the scientific research of the leading scientists of Russia, Kazakhstan, Estonia, and other countries, who are conducting sufficient scientific research and research in this field in the CIS countries, including Seryukova S.V. [9], Sayakbayeva A.A. [10], Suvorov A.V. [11] and others have conducted extensive research on this topic.

In turn, Uzbek economists and scientists enriched the treasure of scientific research through their articles and scientific presentations based on the analysis of the practice of the Republic of Uzbekistan on these issues. Among them are Abduramanov Kh.Kh [12], Mukhtarov B. A. [13], and Ghairatovna, K. N. [14] should be noted.

Main part

Financial literacy.

First of all, we need to know the essence of the concept of financial literacy. Financial literacy is the art of managing money wisely.

The relevance of increasing the level of financial literacy of the population is determined by the following reasons [15]:

1. Changes in the structure of income sources of the population. The increase in the share of income from small business, family, and individual entrepreneurship in the composition of population incomes leads to a sharp increase in the need for effective management of savings and investments and proper planning of expenses.

2. The emergence of a large number of private entrepreneurs. Such entrepreneurs solve various management issues in their daily work: managing financial flows and material assets, financial accounting, planning income and expenses, forming insurance funds, optimizing the

purchase of material resources, using banking services, investing savings, obtaining loans, and such as debt management.

3. A sharp increase in the population's need for long-term savings and loans. In the conditions of the market economy, the population should independently implement the following functions of savings: the implementation of additional pension funds, and savings to pay for medical and educational services. The above situations require long-term planning of the family budget, assessment, and management of risks through financial tools (insurance, pension funds, bank deposits, and securities investments). Thus, the formation of long-term savings and training in the skills of obtaining credit is an important function of the financial literacy of the population.

4. Expansion of opportunities to invest personal savings and manage material assets. In the conditions of the market economy, there are various alternative methods of realization of population savings and investments. To effectively use the services provided by banks and other financial institutions, the population should be financially literate to manage loans, make investments, and make effective decisions.

5. Expansion of population labor migration. To reduce the impact of risks such as dismissal, fraud, bad social conditions, and bad treatment of migrant workers working abroad, it is necessary to increase the literacy of migrants about money transfers, banking services in foreign countries, and the insurance system.

6. Some features of the traditions of the population in the field of consumer culture. The need to reduce the large expenses of the population on some traditional holidays and to increase the investments to direct the investment of human capital requires increasing financial literacy.

7. Due to the relatively low consumption of several financial services, the composition of their consumption is limited.

8. Because the quality of all financial services has not been independently checked during the purchase period, there are opportunities for sellers to sell low-quality products.

9. The high costs of checking the high obligations undertaken by the parties.

Implementation of the financial literacy system is especially important for the socially disadvantaged sections of the population. According to world practice, a financially literate person will have the following advantages:

- being able to make reasonable decisions about money and prices;
- having the ability to effectively manage the family budget;
- to know about effective management of financial assets and expenses;
- being able to fulfill financial obligations within the specified period;
- an increase in the number of methods used in the implementation of personal savings and investments based on the wide use of financial services;
- flexible approach to changes in standard of living.

In developed countries, effective areas of population literacy development include:

- pension insurance;
- lending (consumer and mortgage);
- savings and investments of the population

Let's see why financial literacy is needed in this real-life example.

Today, as time progresses, technology is also developing, and this, in turn, opens wide avenues for new branches of fraud, such as the forgery of banknotes.

A natural question arises here. So, what should you do to avoid being scammed by counterfeit money? How to distinguish real banknotes from fake ones? Our financial knowledge will help you avoid such real problems.

The most reliable way is to check the banknote at any bank. It's free, but not always convenient. So, we will learn how to distinguish real money from fake money.

One of the unique features of real banknotes is the security elements. The main elements of protection [16]:

- Watermarks - in light, watermarks appear lighter than in the image;
- Fibers - colorful threads included in the paper fabric;
- Relief (exaggerated) printing - images and writings perceived by touch;
- Hologram - an element that gives a three-dimensional hologram image when viewed from an angle;
- The presence of a portrait image in the internal structure of the paper. This image is examined against the light.

What to do with a counterfeit banknote?

1. You need to check the banknotes before they end up in your pocket. If in doubt, don't take the money.

2. If you already find a suspicious banknote in your hand, do not rush to spend it. If it is a fake, at the very least, you will spend a lot of time explaining it to law enforcement agencies.

3. Take the suspicious money to a commercial bank. Maybe the money is real but damaged. Bank specialists usually conduct checks in front of you, and if your money is valid, you will be given new money at that value. If your banknote is unusable or counterfeit, the bank will withdraw the banknote and you will not be compensated in any way.

In the above example, it became clear why financial literacy is needed. Now imagine that you want to start a business, you want to invest in a start-up or an innovative project. Your success in economic situations and processes based on such complex analysis is measured by your financial literacy.

Interdependence of income and expenses.

Let's look at several effective techniques for building savings for the proper distribution of income and expenses, planning the allocation of money for financial goals and a financial cushion [17]:

1. "Half-and-half" technique - the simplest method. It is considered a convenient technique for people who are ready to save, but do not want to calculate. That is, you can save half of your salary and forget about it, and you can spend the other half on daily expenses.

2. "60% technique" - invented by financial consultant Richard Jenkins, the essence of the method is that you allocate 60% of your income for current expenses, and the rest as follows: 10% for retirement funds; 10% long-term purchases and payments; 10% unplanned expenses; 10% on any entertainment.

3. "50-30-20" technique (E. Warren)

In this technique, it is necessary to balance the following three areas:

Necessity (50% of income): food, utilities, etc.;

Desires (30% of income): books, movies, cafes, etc.;

Savings (20% of income): 10% - financial cushion, 10% - financial goals.

4. The "Six Jars Method" or "Rule of Jars" technique [18]) is a classic envelope technique used in budgeting. This money management system is described in Think Like a Millionaire by T. Harv Ecker. The essence of this technique is that all income is divided into six categories (pots) and spent according to the established order:

1st jug. Necessary or current costs - 50%. This jar stores money for the following current expenses: food, utilities, loans, medicine, transportation, medicine, etc.

2nd jug. Desires - 10%. The money from this jar is used to take care of yourself. Make purchases that you are not used to. You can go to a massage, go-karting club, concert, or vacation with the money in this jar. Motivate yourself and live happily without the guilt of overspending.

3rd jug. Financial freedom - 10%. This jar is your ticket to financial freedom. Money is not spent under any circumstances; it is used only for passive income. Even when you are financially free, you can spend only the profit from the money in this jar.

4th jug. Education - 10%. The money in this pot is used for education and personal development. Investing in yourself and your children is a great reason to spend money. The money is spent on education, training courses, master classes, training, and books. Self-development can give you more opportunities not only in your main job but also in creating additional and passive sources of income.

5th jug. Reserve fund and future purchases - 10%. The money saved in this jar can be used as a financial cushion for big expenses (vacation, dishwasher, car, etc.). The money in this account allows you to get rid of financial difficulties, get rid of debts, and show confidence in the future.

6th jug. Gifts and donation account - 10%. The money in this jar is used for charity purposes or for buying gifts for friends, relatives, and neighbors. The more freely you spend this money, the faster it will return. Besides, it's always nice to share gifts with loved ones.

Conclusion and suggestions

It is worth noting that the Central Bank of the Republic of Uzbekistan is conducting large-scale activities based on the government's order to increase financial literacy and popularization. A department was established for this purpose [19] and its activities are continuously carried out. You can improve your financial literacy remotely through the financial literacy information and education website [20] of the Central Bank of the Republic of Uzbekistan. The articles and resources of this platform are free and are organized to increase the financial literacy of the population.

In the suggestions section of the article, I would like to offer the Telegram bot "Economist" [21], which was programmed on my initiative to improve financial literacy. This bot is designed to increase financial literacy and includes:

- spelling dictionary of more than a thousand economic and financial terms;
- electronic library of world bestseller books;
- consists of short films, cartoons, and other useful resources, shot at the initiative of the Central Bank, aimed at increasing financial literacy.

My next offer is the interactive educational platform "World of Finances"[22], which was launched by the Central Bank in cooperation with the VISA payment organization.

"World of Finance" is an online educational project for the population in the format of interactive "edutainment".

The platform provides for passing through 4 stages of educational thematic modules:

- "Knowledge country" - basic knowledge about cards and banks

- "Country of expenses" - rational spending of funds
- "Country of savings" - savings and investments
- "Business Country" - tips and tricks for business

Each participant will receive a virtual diploma upon successful completion of the 4-stage module and tests.

REFERENCES

1. International Accounts Federation website <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/cost-financial-illiteracy#:~:text=Higher%20debt%20and%20bankruptcy%20rates,effects%20on%20the%20financial%20system>.
2. Lee Kuan Yew: From the Third World to the First World. History of Singapore (1965-2000) "From third world, to first world" <https://asaxiy.uz/uz/product/li-kuan-yu-uchuinchi-dunedan-birinchi-dunega-singapur-tarihi-1965-2000>
3. Lee Myung-bak: "Miracles don't happen" <https://asaxiy.uz/uz/product/li-myon-bak-muzhiza-sodir-bulmajdi>
4. Adam Smith. Nature and causes of the wealth of nations. London 1989: Printed for A. Strahan ; and T. Cadell, in the Strand. Fifth edition https://books.googleusercontent.com/books/content?req=AKW5QadRcf2G-2YVILFJTt1r-A-oQ4O8Vzi7c9Y3M5Y1mDYM1QFQ2uKSoFhpkZnmsgkWILTTC7Tk7lqznQKLm2ZxWNUXJcjZilZ5AYd2ii4zxznwouIDeRjLzPNZAhZY29d_Y5wyWE--dN302c5-6liYboHbSDAsM6yg5vsbS0mcNnxufQG0AolG3AzBliQz1g-z7RpDWwpqzIYuhobjoeA7wzDZG6hjzR7IDXofTjhO6qRf1vOidwE_r9mGIPokPXpjwKoliNn-N9H0dJZduxAdDNiCA0oElfrJqOD_a3m3WXfz0-x0A
5. Larisa Burakova: "How Georgia achieved success" <https://asaxiy.uz/uz/product/larisa-burakova-gruziya-muvaffakiyatga>
6. Stuart, T.E.; Ding, W.W. When do scientists become entrepreneurs? The social structural antecedents of commercial activity in the academic life sciences. *Am. J. Sociol.* 2006, 112, 97–144. [Google Scholar] [CrossRef]
7. Perkmann, M.; Tartari, V.; McKelvey, M.; Autio, E.; Broström, A.; D’este, P.; Fini, R.; Geuna, A.; Grimaldi, R.; Hughes, A.; et al. Academic engagement and commercialisation: A review of the literature on university–industry relations. *Res. Policy* 2013, 42, 423–442. [Google Scholar] [CrossRef]
8. Jin, P.; Mangla, S.K.; Song, M. The power of innovation diffusion: How patent transfer affects urban innovation quality. *J. Bus. Res.* 2022, 45, 414–425. [Google Scholar] [CrossRef]
9. Sevryukova, S. V., & Korosteleva, O. N. (2017). Formirovaniye denezhnykh dokhodov naseleniya kak sotsial'no-ekonomicheskiy aspekt regulirovaniya urovnya zhizni. *Kontsept*, (11), 151-155.
10. Sayakbayeva, A. A., Akylbekova, N. I., & Taalaybek, T. (2020). Dokhody naseleniya kak faktor ekonomicheskogo rosta. *Izvestiya Issyk-Kul'skogo foruma bukhgalterov i auditorov stran Tsentral'noy Azii*, (2), 82-89.
11. Suvorov, A. V. (2008). Problemy otsenki differentsiatsii dokhodov naseleniya v sovremennoy Rossii. *Problemy prognozirovaniya*, (2), 3-18.

12. Abduramanov X.X, Arabov N.U, Xolmuxamedov M.MningAholi daromadlari va turmush sifati "TAFAKKUR BO'STONI""TOSHKENT-2014"

13. Mukhtarov B. A., Ortikov O. YU. Kul'turnoye i ekonomicheskoye razvitiye turizma v Uzbekistane //Molodoy uchenyy. – 2016. – №. 14. – C. 375-378.

14. G'ayratovna, Q. N., Abdujabborovna, I. N., & Usmonbekovich, Y. I. (2023). AHOLINING MOLIVAVIY SAVODXONLIINI OSHIRISH VA JAMG'ARMA USULLARI. OBRAZOVANIYE NAUKA I INNOVATSIONNIYE IDEI V MIRE, 34(2), 134-139.

15. Nazarova S: "Moliyaviy savodxonlik asoslari". Tashkent-2020 <https://altsul.uz/wp-content/uploads/2021/04/Moliyaviy-savodxonlik.pdf>

16. How to check the authenticity of the money? <https://finlit.uz/uz/articles/money/how-to-verify-the-authenticity-of-money/>

17. Savings techniques - informational and educational website of the Central Bank of the Republic of Uzbekistan on financial literacy. <https://finlit.uz/uz/articles/budget/savings-techniques/>

18. Theory: 6 Jars Budgeting Method <https://readinggraphics.com/the-6-jar-wealth-management-system-by-t-harv-eker/>

19. Department of Financial Literacy and Public Awareness <https://cbu.uz/uz/about/central-office/divisions/moliyaviy-savodxonlikni-oshirish-va-bank-mutaxassislarini-qayta-tayyorlash-departamenti/>

20. Informational and educational website of the Central Bank of the Republic of Uzbekistan on financial literacy <https://finlit.uz/uz/>

21. A free Telegram bot designed to improve financial literacy <https://t.me/tdiurobot>

22. "World of Finance". Financial literacy website launched by the Central Bank in cooperation with the VISA payment organization <https://financeworld.uz/>