



# THE BASICS OF THE ECONOMY - AND YOU

*So how does the economy even work, and how can I understand something that seems so complex? By sticking to the basics. If you have a general grasp of the concepts that drive the economy, you will do just fine in becoming part of it.*

## What is inflation?

Inflation simply means that prices go up, while deflation means prices go down. The economy is primarily driven by supply and demand. If there is a low supply of a certain type of good (like wheat or oil or the Playstation 5) and a high demand for that good, then prices go up. If there is an oversupply or a low demand, prices go down. Governments make use of interest rates on borrowed money to help regulate inflation in a country's economy, so that inflation doesn't get out of control.

## How do interest rates work?

When you borrow money, you pay interest, which is usually expressed as an annual percentage of the amount borrowed. When you save money in an account, the bank will pay you an interest rate based on how much you save, and your total saving balance will grow over time. The interest is the money that someone earns on their savings or charged on the amount borrowed. Simple interest (SI) is calculated as a percentage of the principal (P)\* annual

interest rate (R)\*, time (T), amount of interest ( $SI=P*R*T$ ), and compound interest, where compound interest includes accrued interest along with the principal.

Most savings and loan deposits use compound interest. For example, if you borrow \$100 at 5% interest, you will pay back \$105 to the lender. The lender will profit by \$5.

In addition, each loan has an interest rate that determines the total amount owed. The reserve bank of a government determines the interest rates for that country's economy, in other words how much interest you will pay if you borrow from your bank to buy a car or a house or how much interest the bank will pay you on your savings.

## How can I start a small business?

You need a business idea to start a small business. For example, I want to open a men's-only salon. You should also conduct an environment scan, which means determining where you want to set up your business, whether the

market is available, and who the people in that location are (if they are viable potential customers).

Furthermore, having a business plan is critical. What are the requirements for capital, both financial and human capital, marketing skills, budgeting, and record-keeping?

### Why is tax so hard?

Overall, tax is complicated, making it difficult and costly to understand, particularly for the majority of individual taxpayers. It is constantly competing with people's needs and is difficult to calculate for many. There are many reasons why tax is so difficult. The majority of people are ignorant about tax, how to compute it, policy compliance, and so on, and many people simply avoid it by not paying tax, but this is risky since you are always eligible for back-payment of unpaid tax debt. However, a registered business must pay taxes.

### What are the best ways to save money or invest?

You can save money in a variety of ways, such as through a bank savings account. Banks offer their customers savings accounts to help them save. You can also specify how much you want to save and how often you want to save (daily, weekly, monthly, etc.). Furthermore, the bank offers fixed accounts in which a client can deposit a certain amount of money with the bank for a set period and then withdraw that money; otherwise, if you breach the contract, you are likely to pay the consequences. With these two accounts, the bank continues to add a daily interest rate to your account based on the bank's performance.

Saving groups – Savings and Credit Cooperative Organisations (SACCOs) – are also used by some people. SACCOs are governed by the government and managed by their members. They offer opportunities for members to save and borrow at low-interest rates. A SACCO can be formed at the local, regional, national, or international level. People with similar interests pool their money and save for their future or a specific need, but most of the time, SACCOs are seen to financially empower people while also assisting them in improving their lives.

The use of a money box or piggy bank is a simple and easy way to teach family members to save at the family level. A money box typically has a small hole that serves as a door for storing money. They are also commonly referred to as pigeon boxes. Someone can save money in a box for a particular period for a specific goal, such as one year, and the goal is met. However, this method requires a lot of financial discipline so that one does not keep using the money whenever one is in a financial crisis.

We also have village saving loan associations (VSLA), which are typically at the village level and consist of small groups of people. Its members control all of the money saved and participate in decision-making. Members are typically low-income earners who save a small amount of money weekly or monthly before participating in cash rounds in which each member receives money to add to or start a business. This method is widely used in rural areas.

Again, with the advancement of technology, different individuals can use their phones as a form of savings. This is possible with mobile money. You can save and invest with the communication companies themselves, and you can get your money back at any time.



Furthermore, one can save in assets like property such as land, rentals, animals, poultry, treasury bills, bonds, and so on.

Recently, insurance companies have offered various ways for people to save money with them. For example, through the unit trust policy, and so on. You open an account with the insurance company and begin depositing premiums on a monthly basis, and the company pays you back with interest at maturity. Other policies include investment policies, child policies, and so on.

### What are the best tips for creating long-term wealth?

There are many tips for creating long-term wealth, including but not limited to the following: one, you must be passionate about acquiring wealth; this will motivate you to work hard and put in extra effort where necessary; and two, having good people and personal relationships is essential.

You cannot create wealth without people, and no business can exist without customers. Know your financial advisers, and find reliable people to go into business with. Time management is also essential. It is critical to manage time when opening and closing a business, as well as knowing when to add more money to the business and when to commit to work. Also, one must be respectful to maintain friendly relations with the people in one's business and those who have previously been in business. Good relationships can help you grow steady wealth.

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*Ka gona ikonomi e bile e šoma bjang, gomme nka kwešiša bjang selo seo se bonagalago se raragane gakaakaa? Ka go kgomarela dilo tša motheo. Ge e ba o na le kwešišo ya kakaretšo ya dikgopolo tšeo di sepedišago ekonomo, o tla dira gabotse ka go ba karolo ya yona.*

*Translated into Sesotho sa Leboa/Northern Sotho by Tebatso Isaac Makwala*