Week 1 Mini Case Study: Financial Systems

Case Title: From Savings to Growth – How the Financial System Works in Practice

Rahul is a 21-year-old undergraduate student living in India. He receives a monthly allowance of ₹12,000 from his family. Over the past year, Rahul has managed to save ₹30,000 by controlling his expenses and doing part-time work.

Rahul is unsure what to do with this money. He considers three options:
• Keeping the money as cash at home
• Depositing it in a bank
• Investing it through a financial product

At the same time, a small manufacturing business in his city wants to buy new machinery worth ₹5 lakh to increase production. The business does not have enough cash and is looking for funding.

Rahul and the business owner do not know each other. Rahul is concerned about the safety of his money, while the business owner needs funds quickly and reliably. Direct lending between them is risky and impractical.

Rahul deposits his savings into a bank. The bank pools money from many such savers and lends it to businesses that need funds. The business receives a loan, buys the machinery, increases production, and earns higher profits. The bank earns interest, and Rahul receives interest on his savings.

Questions to solve (self analysis)

1. Why is it unsafe for Rahul to lend money directly to the business owner?
2. What role does the bank play in this financial system?
3. How does Rahul benefit by depositing his money instead of keeping cash?
4. How does the business benefit from the financial system?
5. What would happen if banks did not exist in this situation?