

# Finance (Basic)

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# Structure of lectures

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- Introduction to finance
- Financial markets
- Banks and bank systems
- Other financial institutions
- Time value of money
- Corporate finance
- Personal finance
- Investments
- International finance, International financial system

# Why study finance?

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- To manage your personal resources
- To deal with the world of business
- To pursue interesting and rewarding career opportunities
- To make informed public choices as a citizen
- To be able answer different questions...

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- I want buy a new car. Should I use my cash saving, lease, borrow?
  - What happens if the government changes the tax rate?
  - Which is the best way to pay my house?
  - I am thinking about starting a new business. Will it reward me adequately?
  - Should I change money for my Christmas holiday now or later?
  - ect.

# What is finance

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**Definition:** *Finance is the study of concepts, applications, and systems that affect the value (or wealth) of individuals, companies, and countries over the short and long term. The study of finance is both qualitative and quantitative.*

# Finance $\neq$ money

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Cash versus Credit money

Functions of money:

- Medium of exchange*
- Unit of account*
- Store of value*

# Scope of finance

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- Corporate Finance*
- International Finance*
- Private Finance*
- Public Finance*
- Derivatives*
- Risk Management*
- Portfolio Theory*
- Asset Pricing*
- Financial Economics*

# Finance nowadays and before

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Tough financial dealings have existed for centuries, their presence and importance have become even more apparent in our modern era of technology, information, consumption, and investment.



# Impact of finance

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- GDP
- CPI
- SM
- $i$
- Oil
- ect.

# Financial system

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**Definition:** *In finance, the FS is the system that allows the transfer of money between savers and borrowers. It comprises a set of complex and closely interconnected financial institutions, markets, instruments, services, practices, and transactions.*

# Function of FS

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- ❑ Transferring money
- ❑ Share risk
- ❑ *to clear and to settle payments;*
- ❑ *to aggregate and to disaggregate wealth and flows of funds bringing together large/small-scale investors with savers;*
- ❑ *to shift financial resources over time, space and industries;*
- ❑ *to accumulate, to process and to disseminate information for decision making purposes;*
- ❑ *to provide ways for managing uncertainty and controlling risk.*

# Form of FS

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Great variety of FS in different countries.

e.g.

☐ USA

☐ Germany

# Spending sector (Macroeconomic)

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- Household
- Business Firms
- Government
- Foreign Sector

# Surplus spending units

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- ❑ Has more cash income flow than expenditure
- ❑ Other terms for SU – saver, lender,...
- ❑ The SU may buy financial assets, hold more money, ...
- ❑ Usually Household and foreign sectors

# Deficit spending units

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- ❑ Has more expenditures on consumption and real goods
- ❑ Must participate in the financial sector
- ❑ Borrower, demander of loanable funds, and seller of securities

# Financial claims

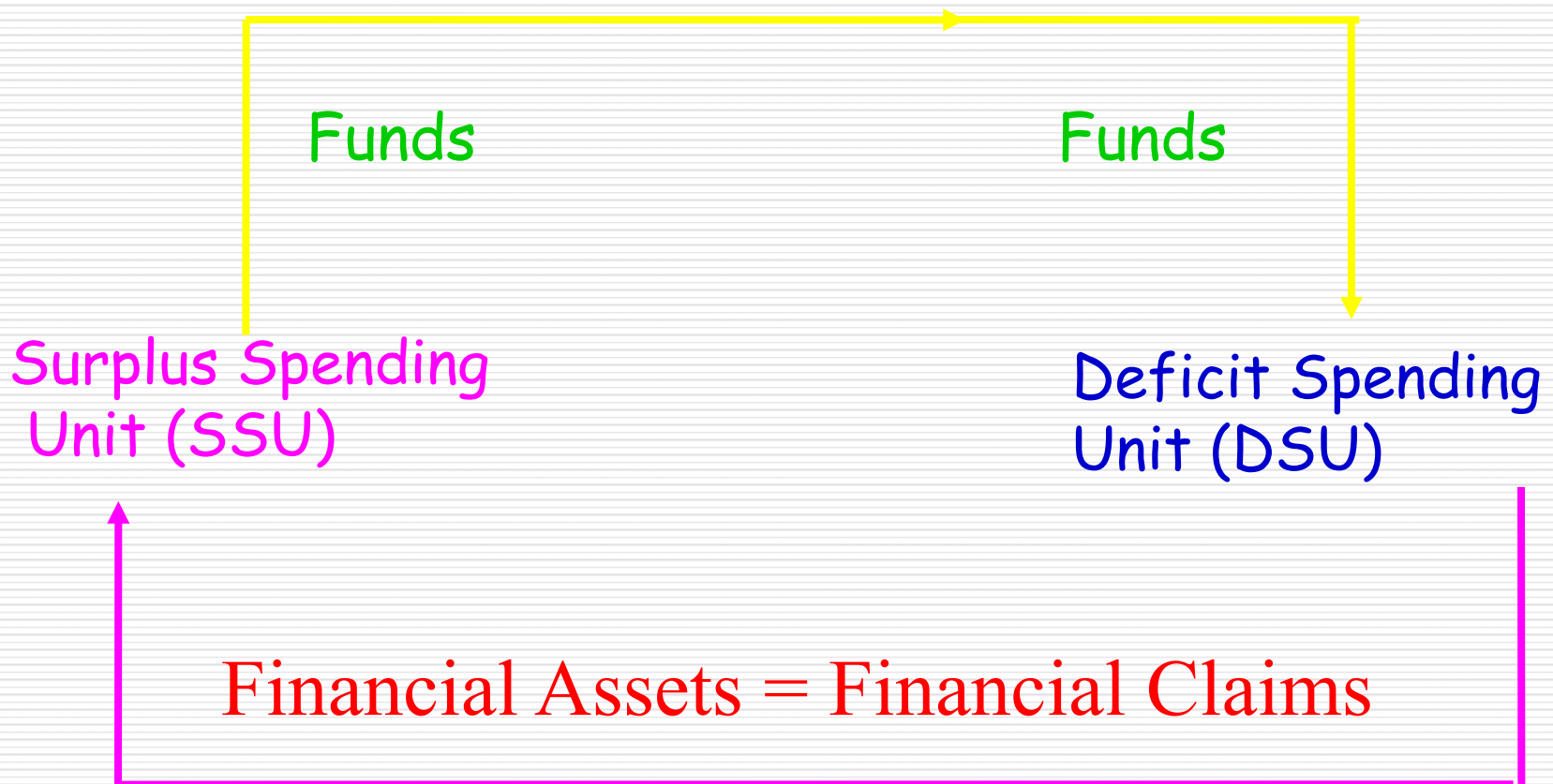
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- ❑ Contracts related to the transfer of funds;
- ❑ Financial assets and liabilities, securities, loans and financial investment;
- ❑ Every FA an offsetting FL.



# The flow of funds diagram

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# Financial intermediaries

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Channeling funds between surplus and deficit agents (Banks, Insurance companies, ....).

# Major function of intermediaries

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- Maturity transforming
- Risk transforming
- Convenience denomination

# Advantages of FI

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## ❑ Cost advantage:

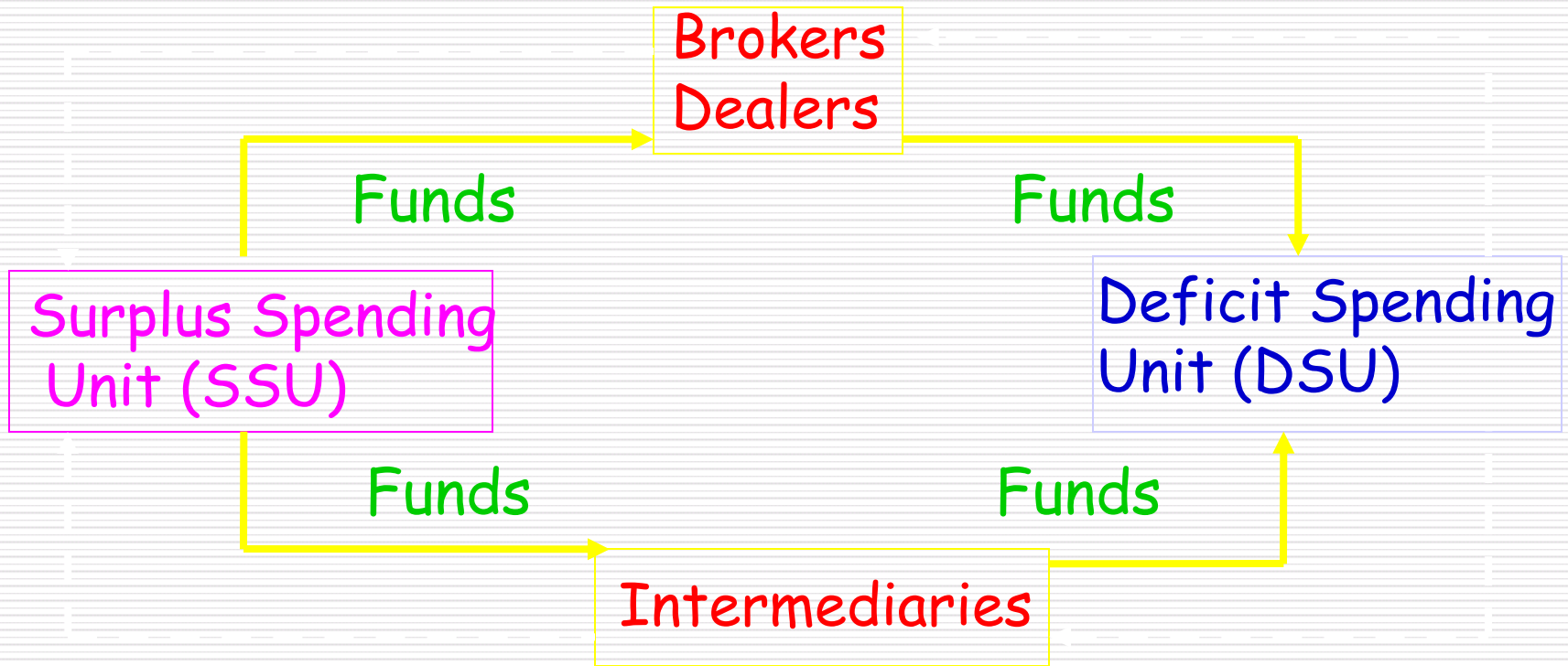
- ❑ *Reconciling conflicting preferences of lenders and borrowers*
- ❑ *Risk aversion intermediaries help spread out the risk*
- ❑ *Economies of scale – reducing costs of lending and borrowing*
- ❑ *Economics of scope - intermediaries concentrate on the demands of the lenders and borrowers and are able to enhance their products and services*

## ❑ Market failure protection

# The flow of funds diagram

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## DIRECT FINANCING (Markets)



## INDIRECT FINANCIAL INVESTMENT OR INTERMEDIATION FINANCING

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Thank you for your attention

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