

Introduction to finance

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Content

- 1 Covered areas of the course
- 2 What is Finance
- 3 Economic system
- 4 Financial system

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Structure of the lectures

Structure of the lectures

- General introduction

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- General introduction
- Financial markets

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- General introduction
- Financial markets
- Bank and banking system

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- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions

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- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money

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- General introduction
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- Time value of money ... *Test 01*

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- Personal finance:

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 - ▶ Annuities I

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 - ▶ Annuities I
 - ▶ Annuities II

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- Bank and banking system
- Other financial institutions
- Time value of money ... *Test 01*
- Personal finance:
 - ▶ Annuities I
 - ▶ Annuities II
- Corporate finance

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- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... *Test 01*
- Personal finance:
 - ▶ Annuities I
 - ▶ Annuities II
- Corporate finance
- Investment

Structure of the lectures

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
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- Personal finance:
 - ▶ Annuities I
 - ▶ Annuities II
- Corporate finance
- Investment
- International finance & International financial system

Why study finance?

- ... own financial situation

Why study finance?

- ... own financial situation
- ... career opportunities

Why study finance?

- ... own financial situation
- ... career opportunities
- ... understand world of business

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- ... own financial situation
- ... career opportunities
- ... understand world of business
- ... understand political environment

Why study finance?

- ... own financial situation
- ... career opportunities
- ... understand world of business
- ... understand political environment
- ... answer different questions ...

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Finance is the study of **concepts, applications,** and **systems** that affects the value (*or wealth*) of **individuals, companies,** and **countries** over the short and long term.

The field of finance includes both *quantitative* and *qualitative* aspects.

Beware of simple judgments

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, because ...

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, because ...

FINANCE \neq *MONEY*

Money

Cash

Cash

X

Cash

X

Cashless

Cash

X

Cashless

Functions of money:

Cash

X

Cashless

Functions of money:

- Medium of exchange

Cash

X

Cashless

Functions of money:

- Medium of exchange
- Unit of account

Cash

X

Cashless

Functions of money:

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

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Entities in economic model

Entities in economic model

- Households

Entities in economic model

- Households
- Firms

Entities in economic model

- Households
- Firms
- Government

Entities in economic model

- Households
- Firms
- Government
- Foreign sector

Illustration of a simple economic model

...

Surplus spending units

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- Have more cash income flow than expenditure

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- Other terms for SSU – *savers*, *lenders*, . . .

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Surplus spending units

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- Usually *Households* and *Foreign sector*

Deficit spending units

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- Have more expenditures on consumption and real goods

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- Must participate in the financial sector

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- Other terms for DSU -

Deficit spending units

- Have more expenditures on consumption and real goods



- Must participate in the financial sector
- Other terms for DSU - (*Borrower, demand-er of loadable funds, seller of securities, etc.*)

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Definition of a Financial system

Definition of a Financial system

Financial system represents a system that allows the **transfer of capital** between **savers** and **borrowers**. It comprises a set of complex and closely interconnected financial **institutions, markets, instruments, services, practices, and transactions**.

Main functions of the Financial system

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The most important functions of the financial system include:

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The most important functions of the financial system include:

- Money transferring

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- Risk sharing

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- Clearing & Settlement

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- Providing information for decision-making processes

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- Aggregation and dis-aggregation of financial resources
- Shifting of financial resources over *time*, *space* and *sectors*
- Providing information for decision-making processes
- Helping in managing uncertainty and risk

Form of the financial system

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The character of the financial sector depends on the institutional composition and practices.

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U S A X G E R M A N Y

Financial claim

...

Financial intermediaries

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- Maturity transforming
- Risk transforming

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Main functions of FI:

- Maturity transforming
- Risk transforming
- Convenience denomination

Advantages of FI

- Costs benefits

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- ▶ Reconciling conflicting preferences of lenders and borrowers

■ Costs benefits

- ▶ Reconciling conflicting preferences of lenders and borrowers
- ▶ Helping spread out the risk

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- ▶ Reducing costs of lending and borrowing - *Economies of scale*

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- ▶ Reconciling conflicting preferences of lenders and borrowers
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- ▶ Reducing costs of lending and borrowing - *Economies of scale*

■ Market failure protection

Literature:

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