

金融学  
系列教材

高等学校应用型本科金融学  
“十二五”规划教材

# 金融英语教程

Financial English Course



主 编 张铁军 张 靖  
副主编 王立志 常 超

 中国金融出版社

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# 前 言

我国金融体系在经历了三十多年的巨大变革后正越来越成熟和开放。中国经济的发展离不开世界，同时，世界经济的发展也离不开中国。在金融全球化的时代背景下，金融高校学生专业外语能力的培养显得尤为重要。我们根据教育部对高等金融院校的课程设置要求，以培养国际化的金融复合型人才、提高金融高校学生的专业英语水平为目标，历时两年编写完成《金融英语教程》一书。

本书内容新颖实用，不仅涵盖了货币、国际金融、国际结算、证券、会计、保险等金融学科的主要方面，而且结合最新资料介绍了我国金融体系以及国际货币基金组织等国际金融机构的改革和发展，并对金融危机的类型、原因以及由2007年美国次贷危机引发的全球金融危机进行了较深入的分析。

各章由学习目标、课文、词汇表、注释和习题五个部分组成，章节的结构设计有助于学生全面地通过英语掌握金融知识，积累专业词汇，提高阅读水平。此外，各章练习设计能够帮助学生巩固金融知识和语言点。注释部分尽可能对难点进行了阐释，有助于教师授课和学生自学。

本书适合作为高校金融或经济相关专业的金融英语教材，也可作为金融专业英语证书考试（FECT）的辅助用书。

本书的编写人员为哈尔滨金融学院有丰富金融英语教学经验的教师。由张铁军教授拟定大纲并总纂。编写分工如下：

张铁军编写第5章、第7章，张靖编写第1章、第6章、第8章、第11章、第12章、第13章，王立志编写第2章、第3章、第9章、第10章、第15章，常超编写第4章、第14章。

在编写过程中，编者参考了大量国内外资料，在此向所有文献的作者致谢。由于作者水平有限，书中疏漏之处在所难免，请读者批评指正。

编 者  
2011年7月

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# Money

## **Learning Objectives:**

- Define money
- Illustrate types of money
- Describe functions of money
- Understand interest and interest rate
- Describe money supply
- Introduce China's monetary system

When talking about money, people usually feel familiar but sometimes confused. We are familiar with it because it is everywhere in life, and we feel confused when we think about the true nature of it. What is money? What are the functions of money? And how many types of money are there in history? Questions like these will be explored in this chapter.

## **1.1 Definition of Money**

Money can be defined as any object that is generally accepted in the payment for goods and services or in the repayment of debts. Currency, which is banknotes and coins, clearly fits this definition and is one type of money.

However, to define money merely as currency is too narrow today for people because practically all payments are made not only by the exchange of currency but also by the transfer of deposit balance via checks or electronic transfer wire. So checks are also accepted as the payments for purchases and checking account deposits are considered money as well. Sometimes, an even broader definition of



money is needed because other items such as savings deposits can in effect function as money if they can be quickly and easily converted into currency. This is also true with time deposits. They are all items that are “generally acceptable” in making payments.

## 1.2 Types of Money

Before the development of a medium of exchange, people would barter to obtain the goods and services they needed. This is basically how it worked: two individuals each possessing a commodity the other wanted or needed would enter into an agreement to trade their goods. So barter is the process of directly exchanging one good or service for another, and only when “a double coincidence of wants” exists the trade could take place. For instance, if you have cows but need bananas, you must find someone who not only has bananas but also has the desire for meat. If you happen to find a right person, the next question will be how much meat you will exchange for the bananas you want. What if you find someone who has the need for meat but no bananas and can only offer you bunnies? Apparently the barter system is not convenient and to solve the problem commodity money appeared.

### 1.2.1 Commodity Money

Commodity money or money in kind is money whose value comes from a commodity out of which it is made. They are objects that have value in themselves as well as for use as money. Examples of commodities that have been used as mediums of exchange include gold, silver, copper, salt, large stones, decorated belts, shells, alcohol, cigarettes, barley, etc. In practice, over the past 4,000 years, the predominant commodity money has been precious metals: mostly silver and gold, also called full-bodied money<sup>1</sup>, which is one of the stages of commodity money. Almost all countries have passed the stage of precious metal money which used to be a perfect form of money.

### 1. 2. 2 Representative Money

Representative money or representative full – bodied money refers to paper money fully backed by a precious metal. The value of representative money stands in direct and fixed relation to the commodity that backs it, while not itself being composed of that commodity. In 1930s when the economic and financial crisis stopped the exchange of paper money for metals, the gold standard or the silver standard collapsed. The major western countries had to break away from the metal standard, thus paper money could not be converted into gold any more. Since then representative money exited from circulation and credit money emerged.

### 1. 2. 3 Credit Money

Credit money is the money which does not consist of or represent a specific valuable commodity. The value of credit money depends on its general acceptance based on the credit of its issuer and it is created through credit process. Credit money has two features; one is its relation with precious metals; the other is that it is based on the credit of national governments and banks. Although precious metals are not needed to back the issuance of credit money, it does not mean that modern credit money has not any reserves to back its issuance. In fact, most countries in the world that adopt the system of credit money have a fairly big amount of reserves, such as gold, foreign exchange, for issuance of credit money.

The money issued is based only on the general credit of a government and on the provision that such money is a legal tender, acceptable to pay taxes and to fulfill contracts calling for payment in the lawful money.<sup>2</sup> This is the case today in most countries in the world. Since this money is proclaimed to be the money by law or a decree known as a fiat, it is sometimes called fiat money. Almost all money circulating in the world today is some form of credit money.

### 1. 2. 4 Electronic Money

The form of money changes as the science and technology develops. Today,

although much of the money used by individuals in their everyday transactions is still in the form of notes and coins, its quantity is small in comparison with the intangible money that exists only as entries in bank records. Perhaps coins and banknotes will become as obsolete as cowries shells. Electronic money refers to depository money that is stored and processed through computer system or electronic payment system. It has many different forms, for example, credit cards, smart cards and funds held in online accounts that can be transferred over the internet and so on.

### **1.3 Functions of Money**

As far as the functions of money are concerned, economists have many historical disputes over the combination of the functions. The most commonly distinguished functions of money are as a medium of exchange, a unit of account, a store of value, and, sometimes, a standard of deferred payment.

#### **1.3.1 Medium of Exchange**

When money is used to intermediate the exchange of goods and services, it is performing the function of a medium of exchange. This effectively eliminates the requirement of double coincidence of wants and overcomes the difficulty of barter system.

#### **1.3.2 Unit of Account**

Money also functions as a unit of account, providing a common numerical measure of the value of goods and services exchanged. Knowing the value or price of a good, in terms of money, enables both the supplier and the purchaser of the good to make decisions about how much of the good to supply and how much of the good to purchase. A unit of account is also a necessary prerequisite for the formulation of commercial agreements that involve debt.

### 1.3.3 Store of Value

A store of value is used to save purchasing power from the time when income is received until the time when it is spent. That means money is used to defer the time of exchange of goods and services. This function of money is useful because most of us do not want to spend our income immediately upon receiving it but rather to wait until we have the time or the desire to shop.

As a store of value, it should be noted that, money is not unique; many other stores of value exist, such as land, works of art, and even stamps. Money may not even be the best store of value because it depreciates with inflation. However, money is more liquid than most other stores of value because as a medium of exchange, it is readily accepted everywhere. Furthermore, money is an easily transported store of value that is available in a number of convenient denominations.

In addition to the above three functions, some economists also regard “a standard of deferred payment” as one of the functions of money. A standard of deferred payment is the accepted way, in a given market, to settle a debt – a unit in which debts are denominated.<sup>3</sup> But now many newer texts do not distinguish this, subsuming it in other functions. They argue that using money as a standard of deferred payment is a direct consequence of the unit of account and store of value functions of money. Since money is the standard for current prices, it is also the standard for future payments based on these prices. Besides, for money to function as a deferred payment standard, it must retain value, so it must also store value. In view of the aforesaid reasons, here we define money in terms of three functions: a medium of exchange, a unit of account, and a store of value.

## 1.4 Interest and Interest Rate

Interest is a fee paid on borrowed assets. It is the price paid for the use of borrowed money, or, money earned by deposited funds. Assets that are sometimes



lent with interest include money, shares, consumer goods through hire purchase<sup>4</sup>, major assets such as aircraft, and even entire factories in finance lease arrangements. The interest is calculated upon the value of the assets in the same manner as upon money. Interest can be thought of as “rent of money”. When money is deposited in a bank, interest is typically paid to the depositor as a percentage of the amount deposited; when money is borrowed, interest is typically paid to the lender as a percentage of the amount owed. Interest rate refers to the ratio of the interest formed during the period of borrowing and lending to the principal of the granted loan.

Interest is compensation to the lender, and for forgoing other useful investments that could have been made with the loaned asset. These forgone investments are known as the opportunity cost<sup>5</sup>. Instead of the lender using the assets directly, they are advanced to the borrower. The borrower then enjoys the benefit of using the assets ahead of the effort required to obtain them, while the lender enjoys the benefit of the fee paid by the borrower for the privilege. Interest also compensates the lender for the risk of losing the principal, called credit risk. In economics, interest is considered the price of credit.

Interest rates have an impact on the overall health of the economy because they affect not only consumers' willingness to spend or save, but also businesses' investment decisions. High interest rates, for example, may cause a corporation to postpone building a new plant that would ensure more jobs.

Interest rates form a very complicated system of economic variables and have various forms since people observe interest rates from different perspectives. The following part focuses on three types of interest rates.

#### 1.4.1 Simple Interest and Compound Interest

Simple interest refers to interest earned only on the principal of the initial investment. It is given by the following formula:

$$I = PRn$$

$$S = P + I = P(1 + Rn)$$

Where  $I$  stands for the interest earned,  $P$  is the principal (the initial amount of money),  $R$  is the interest rate per year,  $n$  is the time in years, and  $S$  is the sum of principal and interest. For instance, if you borrow ¥2000 at 6% interest rate for 2 years, you have to pay the following simple interest:

$$I = PRn = 2000 \times 6\% \times 2 = ¥240$$

With regard to compound interest, interests for previous periods are added to principal for the calculation of interest. With the annual compounding, the interest that accumulates during a year is added to the principal at the end of the year, so that in the following year your money earns interest in interest. If you borrow the same amount of money (¥2000), at the same rate (6%), and for the same length of time (2 years), this is how you can find the compound interest:

At the end of the first year, the interest will be:

$$\text{Interest year 1} = 2000 \times 6\% \times 1 = ¥120$$

Add ¥120 to the initial principal (¥2000), so the new principal for the second year is ¥2120.

The interest at the end of the second year will be:

$$\text{Interest year 2} = 2120 \times 6\% \times 1 = ¥127.20$$

Therefore, the total compound interest at the end of the two years is ¥120 + ¥127.20 = ¥247.20.

The formula concerning compound interest can be stated as follows:

$$S = P(1 + R)^n$$

$$I = S - P$$

#### 1.4.2 Nominal and Real Interest Rates

Nominal interest rate is the promised amount of money you receive per unit you lend. It is unadjusted for inflation.

Real interest rate is approximately the nominal interest rate minus the inflation rate. It is the rate of interest an investor expects to receive after subtracting inflation. This is not a single number, as different investors have different expectations



of future inflation.<sup>6</sup> If, for example, an investor were able to lock in a 5% interest rate for the coming year and anticipated a 2% rise in prices, it would expect to earn a real interest rate of 3%. Since inflation rate over the course of a loan is not known initially, volatility in inflation represents a risk to both the lender and the borrower.

### 1.4.3 Official and Market Interest Rates

The former is the rate set by the central banks or monetary authorities. The interest rate is one of the levers used by governments to regulate economy. In order to let the interest rate reflect the policy intention of a government, the central bank should control the level of some interest rates. One of the most commonly known rates of the kind is the rate of refinancing provided by the central bank for commercial banks and other financial institutions, including discount rate and lending interest rate.

Market interest rate is the rate wholly determined by the demand and supply of funds in the financial markets at a certain period. It is an indicator of the state of the demand and supply of funds in the markets. The inter-bank interest rates are the typical market interest rates, among which the LIBOR<sup>7</sup> is the most influential in the international financial market.

## 1.5 Money Supply

Money supply refers to the collection of all kinds of money in an economy, including the volume of currency in circulation and the volume of deposits at any point of time. Typically, distinct measures of money are reported, differentiated by the types of deposits (and close substitute for deposits) they include. One measure of money is known as narrow measure including currency and demand deposits used for everyday expenditures. The other is broad measure of money that adds time deposits and savings accounts and certain other financial assets. It is the liquidity of money that is most helpful in dividing the measures of the money supply.



Each country publishes several different measures of money supply to show the effects on economy. Generally speaking, money supply is defined as follows:

- a. The narrow measure of money:  $M_0$  and  $M_1$

$$M_0 = \text{Currency}$$

$M_0$  is the currency or cash in circulation including banknotes and coins.  $M_0$  is also called *monetary base*<sup>8</sup> that measures the quantity of currency issued by the central bank.

$$M_1 = M_0 + Dd$$

$M_1$  comprises those assets which are themselves acceptable in exchange and normally held with the intention of spending them in the immediate future.  $M_1$  includes  $M_0$ , checkable or demand deposits at banks.  $M_1$  measures transaction balances.

- b. The broad measure of money:  $M_2$  and  $M_3$

$$M_2 = M_1 + Ds + Dt$$

$M_2$  is a broader measure of purchasing power than  $M_1$ . It includes all of  $M_1$  plus savings deposits and time deposits at bank. They are of highly liquid financial assets. Most of these components of  $M_2$  are assets that provide their owners with a higher rate of return than  $M_1$  components would. If the store - of - value function rather than the medium - of - exchange function of money is emphasized, broader measures are appropriate.

$M_3 = M_2 + \text{short - term government securities} + \text{commercial paper} + \text{life insurance policies}$

$M_3$  here is the broadest measure of money that is available to the public. It adds to  $M_2$  a variety of liquid assets, including the public's holding of short - term government securities, commercial paper, etc. All of these represent stored purchasing power of their owners and are thus potentially related to economic activities.

The reason why so many measures of money are defined is that economists have different opinions as to which measure is most consistently related to spending and other economic activity and that the central banks can monitor the operation of