金融英语证书考试委员会专家组 ◎ 编著

FINANCIAL ENGLISH

3rd Version

金融英语

全国金融英语证书考试指定教材
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第3版

中国金融出版社

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PREFACE

目前，中国金融从业人员的通用英语水平有了普遍提高，但是不少金融机构反映有些同志在使用英语处理金融业务时存在困难，不少院校也反映缺少合适的入门级教材来教授中高年级本科生金融专业英语课程。基于以上等原因，金融英语证书考试委员会以金融英语证书考试专家组成员为主，依据新的金融英语证书考试大纲编写了该本教材。本教材的编写者包括大专院校长期教授金融英语或进行金融双语教学的专家教授，也包括金融机构总部的业务专家，英语语言功底深厚，金融业务娴熟。本教材紧紧围绕提高已经成为或正在准备成为金融业从业人员的专业英语水平宗旨，在不长的篇幅中使用原汁原味的英语言简意赅地介绍了金融基础理论、金融机构、金融市场、金融业务等基础知识，注重理论联系实际，具有全面性、基础性、入门性、适用性以及前瞻性的特点，可读性高。本书可供金融业从业人员、大专院校财经专业学生和老师以及其他有志于投身中国金融业的人员提高金融专业英语水平参考使用。

本书同时也是金融英语证书考试的参考教材。金融英语证书考试（Financial English Certificate Test，简称 FECT）原是 1994 年经中国人民银行和原国家教委联合发文（银发〔1994〕107 号）批准建立的我国第一个国家级行业性外语证书考试制度。金融英语证书考试制度主要面向全国金融系统、大专院校具备一定金融专业知识和英语能力的金融从业人员和有志在金融业发展的人员，主要目的是通过学习和测试促进参考人员金融专业英语水平的提高，并提高其利用英语学习金融新知识和新业务的能力，同时也通过测试为各金融机构提供评估其员工专业英语水平的客观依据。截至 2016 年年底，已有 30 余万人参加了金融英语证书考试，有超过 7 万人获得了各级证书，不少金融机构将其作为内部人才储备、外派干部选拔的参考性标准之一。2016 年，金融英语证书考试经历了重大调整，开始由中国金融培训中心主办并签发证书。中国金融培训中心是中国人民银行直属正厅（局）级事业单位，主要承担中国人民银行及中国金融系统干部的培训教育工作。

参加本教材编写人员及分工如下：Money and Credit（第一章）由北京

语言大学商学院徐进前编写，徐进前还受考委会委托对教材进行了整体审定和总纂；Financial Market（第二章）由中国银行风险管理部韩晔辉编写；Interest Rates（第三章）和 The Central Bank（第七章）由中国人民银行北京营管部张英男编写；Foreign Exchange and Exchange Rates（第四章）由对外经贸大学金融学院高洁编写；Commercial Banks（第五章）由中国人民大学财政金融学院宋玮和张紫湜编写；Non-Bank Financial Institutions（第六章）由浙江工商大学金融学院史小坤编写；Balance of Payments（第八章）由对外经贸大学金融学院卞洋编写；International Capital Flow and International Reserve（第九章）由南开大学金融系李泽广编写；International Banking（第十章）由中国农业银行国际业务部张兆杰编写；Internet Finance（第十一章）由中国人民银行消保局尹优平编写；Securitization（第十二章）由中央财经大学金融学院李磊宁编写。对外经贸大学沈素萍、中国工商银行杭州金融研修院陈海燕、西南财经大学邹勇、湖南师范大学许南、对外经贸大学徐俊贤受考委会委托对教材大纲进行了审定，考委会各委员单位的相关业务部门也参与了教材大纲的审定工作。

一本高质量的教材在培养人才方面所起的作用是难以估量的。许多同志为此教材的编写作了很大的努力，本书凝聚了金融专业英语证书考试委员会、专家组专家、中国金融培训中心相关工作人员以及编辑人员的大量心血。中国金融培训中心原主任万存知同志推动了本书的策划，多次参加专家组工作会，并参与了教材大纲审定；中国金融培训中心主任王晓明同志推动了本书的出版；中国金融培训中心杨文君副主任具体组织了教材编写工作，在教材编写过程中给予了大量指导；中国金融培训中心国际合作部（考试委员会办公室）的赵继东、姚翔、成铨、申迎春、郭娅、蒋雨衡、陈笛等同志在教材编写组织、校对等方面做了大量工作。中国金融出版社教材编辑一部的王效端主任为教材的出版付出了辛勤的努力。在此，我们对为这本教材的出版做出贡献的同志一并表示衷心的感谢。

最后，我们真诚地希望本教材的读者提出宝贵意见，使这本教材越修改越好，更好地服务于读者。由于时间有限，本书的疏漏和错误之处在所难免，恳请专家和读者斧正。

金融英语证书考试委员会

二〇一七年一月

CONTENT

CHAPTER ONE
MONEY AND CREDIT

Money is everywhere in modern society and is so important to us just like blood in a body. All the economic activities of human beings are linked to money through different forms of credit and credit instruments. What's money? What are the functions of money? What are the forms of credit and credit instruments? All these issues are explored in this chapter.

Section 1 Money

I. Overview of Money

1. The Definition of Money

Money is defined as anything that is generally accepted in payment for goods or services or in the repayment of debts. With this definition mentioned, currency, including bank notes and coins, will easily come into people's mind because it clearly fits this definition. But to define money merely as currency is much too narrow 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. So checking account deposits are considered money as well. Therefore an even broader definition of money is often needed because other items such as savings deposits and time deposits can in effect function as money. As we go on our exploration in finance, we'll see more components in money.

2. The Functions of Money

Generally speaking there are three functions of money: (1) medium of exchange or means of payment; (2) standard of value or unit of account; and (3) store of value.

(1) Medium of Exchange or Means of Payment

Medium of exchange is the primary function of money. In almost all market transactions, money functions as a medium of exchange when it is used to pay for goods and services. As mentioned above, in a primitive society, such as a self-sufficient economy, **barter** depends on a **double coincidence of wants.** But this double coincidence of wants is really hard to find because there are a hundred or thousand types of producers with their products. The introduction of money as a medium of exchange effectively eliminates the requirement of double coincidence of wants and overcomes the difficulty of barter. For example, the shoemaker can exchange with anyone who is willing to pay money to buy his shoes. He can then go to any farmer and buy whatever food he needs with the money he has been paid. So as a medium of exchange money is generally accepted in the process of continuous purchase and sale of goods.

(2) Unit of Account or Standard of Value

When money is used to display the value of goods and services, it functions as a unit of account or standard of value.That is, money is used as a measuring yardstick to assess the value of goods and services in the economy. Just as we measure weight in terms of pounds or distance in terms of miles, we measure the values of goods and services in terms of money. The value of a unit of money is determined by the prices of each and every thing—more accurately, the average level of all prices. If prices go up, a unit of money—a dollar—is worth less because it will buy less; if prices go down a dollar is worth more because it will buy more. Thus the value of money varies inversely with the price level.

3. Store of Value

Money functions as store of value when it exits circulation and be kept and stored by people. People store money and can changed it into goods at any time. So money is a good means of storing wealth. If people want money to be an ideal, satisfying and stable means of store of value, the **purchasing power of money** should be stable.

Money is not unique as means of store of value; any asset, be it money, stocks, bonds, land, houses, art, or jewelry, can be used to store wealth. Many such assets have advantages over money as means of store of value: They often pay the owner a higher interest rate than money, thus experiencing price appreciation. The reason why people often hold money as means of store of value instead other more desirable assets is the **liquidity** of money. Liquidity is highly desirable. Money is the most liquid asset of all because it is ready to be spent at a moment's notice. It does not have to be converted into anything else in order to make payment. Other assets bring various inconveniences, transactions costs, and risks when they are converted into money.

II. The Evolution of Money

Since the primitive economy, money changed from commodity money to metal money, from metal money to representative money, from representative money to credit money including electronic money.

1. Commodity Money

The **commodity money** is the oldest form of money, mainly used in a barter economy. Commodity money is the money whose value is the same whether used in exchange for goods and services (as money) or for non-money purposes (as a commodity). In history, a lot of commodities were used as medium of exchange, such as stones, whale teeth, Sandalwood, tortoise shells, diamonds, etc.. With development of exchange of goods, such kinds of commodity money showed their shortcomings. Some of them were very large in size and indivisible so that they could not be carried around which impeded their serving as ideal medium of exchange; others were not stable in value which hindered them from functioning as unit of account and store of value. In practice, over the past 4,000 years, the predominant commodity moneys have been precious metals: mostly silver and gold, also called **full-bodied money**, which overcome the shortcomings of other commodity moneys. Almost all countries have experienced the stage of precious metal money which used to be a perfect form of money.

2. Representative Money or Representative Full-Bodied Money

Representative money or representative full-bodied money refers to paper money fully backed by a precious metal. Representative money first emerged in Britain during the sixteenth century. Originally, the money or notes were issued by the earliest forerunners of private banks—goldsmiths and were essentially warehouse receipts or **IOUs** acknowledging claim to a certain number of gold or silver coins, collectable on demand by the bearer of the money or notes. Since these notes could be exchanged for a fixed quantity of metal coins on demand, they soon became a means of payment as acceptable as the metal coins themselves. The receipts or IOUs which then circulated freely became the first representative full-bodied money. This form of money circulated in the US between 1900 and 1933 in the form of gold certificates. Bearers of gold certificates were entitled to redeem the certificates for gold coins at the US Treasury.

The general acceptance of paper money-representative money- as a medium of exchange or means of payment with no intention of redeeming it for the precious metals behind it, made possible the issuance of paper money with no such backing. What's more, the downfall of the **gold standard** in western countries in 1930s because of economic and financial crisis stopped the exchange of paper money for precious metals. Thus paper money could be converted into gold no more. Hence representative money exited circulation and credit money emerged.

3. Credit Money

Credit money is a kind of credit certificate that serves as medium of exchange and means of payment. Credit money 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: 1) It has no relation with precious metals; 2) It is based on the credit of national governments and banks. It's known to all that the public has confidence in credit money if the quantity of the money issued is reasonable. So there needn't be precious metals to back the issuance of credit money. But it does not mean that modern credit money has not any reserves to back its issuance. In fact most countries in the world that adopts the system of credit money have a fairly big amount of reserves, such as gold, foreign exchange, etc., for issuance of credit money. Obviously governments and monetary authorities are no longer constrained by the full reserves of precious metal or other assets. As long as the public has confidence in the credit of governments and banks and won't cash all the deposits, banks only need to keep a small sum of cash in vaults as reserves and lend out the rest of funds deposited to earn interest.

From time to time, money issued was based only on the general credit of a government and on the provision that such money was **legal tender**, acceptable to pay taxes and to fulfill contracts calling for payment in lawful money. Since this money is proclaimed to be money by law or a decree known as a fiat, it is sometimes called **fiat money**.

4. Electronic Money

Electronic money refers to depository money stored and processed through computer system, such as **Electronic Funds Transfer System (EFTS)** which is a system with which individuals, companies, and governments can receive and disburse funds electronically instead of by use of checks. Electronic money usually takes two forms: one is various plastic cards, such as credit cards, debit card; the other is bank accounts on internet.

Electronic money is used through EFTS applications. For example, employers can have their employees' wages deposited directly in their checking accounts, rather than issuing payroll checks. Individuals can have regular payments such as mortgage payments or insurance premiums automatically deducted from their accounts. Electronic funds transfers by telephone, for payment of utility bills, credit card balances, etc. are increasingly being used. With EFTS applications, transfers of funds can be made much faster and more conveniently. EFTS has the potential to substantially diminish and perhaps even eliminate the use of currency, coin, checks and credit card.

5. The Extension of Modern Money

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, several measures of money are reported, differentiated by the types of deposits (and close substitute for deposits) they include. The narrow measure includes currency and demand deposits used for everyday expenditures. Broader measures of money add time deposits and savings account and certain other financial assets. It is liquidity of money that is the most helpful in dividing our measures of the money supply.

Each country publishes several different measures of money supply, defined as follows:

(1) The narrow money: M_0 and M_1

M_0 is the currency or cash in circulation including bank notes and coins. M_0 is also called monetary base that measures the quantity of currency issued by the central bank.

$$\mathbf{M_1} = M_0 + D_d$$

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 (D_d)at banks. M_1 measures transaction balances.

(2) The broader measure of money: M_2 and M_3

$$\mathbf{M_2} = M_1 + D_s + D_t$$

M_2 is a broader measure of purchasing power than M_1. It includes all of M_1 plus savings deposits (D_s) and time deposits (D_t) at banks. They are of highly liquid financial assets.

M_3 = M_2 +other assets (such as short-term government securities, commercial paper, etc.)

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.

Though money is defined as M_1, M_2, M_3 worldwide, the IMF only calls M_1 money, the other part in M_2 beyond M_1 **quasi-money** or **near money.** Money is so defined because in highly developed financial society there are various financial assets, among which savings deposits and time deposits have a certain degree of liquidity. Holding savings deposits and term deposits are basically the same as holding demand deposits as savings deposits and term deposits can be withdrawn ahead of time though they can not be cashed with checks.

Section 2 Credit

I. Overview of Credit

1. The Definition of Credit

Credit in economics refers to a behavior of borrowing and lending with the feature of repayment of the principals plus interests. Concretely the owner of commodity or money lend the commodity or money to a demander or a borrower who promises to repay the lender with interests at a certain time in the future.

2. The Forms of Credit

(1) Commercial Credit

Commercial credit is the credit provided mutually between enterprises and is linked directly to goods exchange. Usually commercial credit is provided either in the form of deferred payment or payment in advance when businesses conduct goods transactions.

Commercial credit has the following traits: ① Commercial credit is closely linked to a certain goods transaction. Commercial credit is provided in the form of goods by a business to another business and includes two different economic activities—purchase and sale of goods and borrowing and lending of money. ② The creditor and the debtor in commercial credit are either producers or managers of certain goods. ③ The supply of and demand for commercial credit is in keeping with economic cycle. When economy is prosperous, the supply of and demand for credit will increase as production expands and goods increase. Conversely the supply of and demand for credit will decrease as economic condition deteriorates.

(2) Bank Credit

In broad sense **bank credit** is the credit that is granted by banks and other financial institutions. In narrow sense bank credit only refers to the credit provided by banks.

Bank credit has its own features: ① Bank credit is granted in the form of money. ② Bank credit is an indirect credit, as banks and other financial institutions are intermediaries between the owners and users of money in credit activities.

Banks generally do not own the money to be lend, they merely take in deposits and savings from savers, then lend the gathered idle funds to producers of goods and services or invest them in some other ways. ③ Bank credit is extensive one. The extensiveness of bank credit is shown in the fact that banks are specialized financial institutions that have branches extending to every nook and cranny with multiple financing tools, methods and credit business. ④ Bank credit is comprehensive one. The comprehensiveness of bank credit is shown in the fact that banking industry, as a whole, is the pivot of a national economy. Through their activity of money creation, banks provide money needed in an economy. Through banks' daily business of deposit taking, loan granting, clearing and settlement, economic activities in a nation are comprehensively reflected, supervised or monitored.

Because of the features mentioned above, bank credit has become the major form of modern credit in most countries. But bank credit cannot totally replace commercial credit. Commercial credit is still the basis of bank credit. If commercial credit can solve the problem of money shortage, economic entities will first use commercial credit, not bank credit, to meet the demand for money. What's more, some of bank assets businesses, such as discount of bill, are conducted on the basis of commercial credit.

(3) Public Credit

Public credit, also called fiscal credit, is the credit in which government at all levels ranging from local to national are the principal parts of borrowing and lending activities. In public credit governments at all levels are debtors who gather funds from society to meet their fiscal need and banks, businesses, residents from both home and abroad are creditors providing funds for governments.

There are various forms of public credit, such as issuing government securities both at home and abroad, borrowing from banks and abroad etc. Public credit may be long-term, medium-term and short-term. The typical form of public credit is through issuing government securities. Among government securities, short-term ones are called treasury bills—which are issued to meet the need of fiscal spending within one year, medium- and long-term ones are called treasury notes and bonds which are issued to meet the need of fiscal spending over one year.

(4) Consumer's Credit

Consumer's credit or consumption credit is the credit that businesses, banks and other financial institutions grant to consumers for meeting consumers' demand for consumer goods. In consumer's credit, the debtors are consumers. Usually consumer's credit takes two forms:

① Consumer's loan. Consumer's loans belong to the category of medium- and long-term credit, too. Consumer's loan refers to loans that banks and other financial institutions provide directly for consumers to buy consumer goods or for sellers of goods. So two ways for banks to extend consumer's credit are involved: direct credit and indirect credit. In the first case banks directly extend consumer's credit to consumers; in the second case banks grant loans to commercial businesses that provide consumer goods to consumers. Based on loan payment schedules, consumer's loans can be divided into loans on **installment plan or hire purchase** and loans repaid at maturity. In hire purchase a consumer initially pays only a predetermined percentage of the entire purchase price of goods, called **down payment**, and pays the rest of the price in installment payment. The ownership of goods still belongs to the seller before the total amount is paid off.

② Credit cards. In way of granting credit cards, agencies of selling credit cards and retailers of goods jointly provide consumers with consumer's credit in which deferred payment is made by consumers. In most countries granting credit cards is one way in which banks provide credit loans to the public and charging one's credit card is another way of payment for goods and services. When a bank issues credit cards, it also sets limit within which the holder of a credit card can draw money from the bank or charge for goods and services without depositing any money in advance in the bank, that is, overdraft is allowed. The holders of credit cards can purchase goods or services in the appointed hotels and shops within the credit card's limit. The hotels and shops will ask the issuing agencies of credit cards for repayment. At last the issuing agencies and the holders of credit cards will settle the debt and credit among themselves.

Credit card business enables commercial sectors that receive credit card for payment to expand their business, banks to increase interest income and service fee, and brings consumers much convenience. Nowadays the most widely used credit card are those issued by the US credit card companies, VISA, MasterCard, American Express and some others are accepted virtually everywhere worldwide.

(5) Private Credit

Private credit is the credit granted mutually between individuals in the form of money or goods. Such kind of credit mostly exist in the undeveloped or developing areas and countries, as well as in the remote areas in the developed countries.

The participants of private credit are individuals or common consumers of households and individuals who engage independently in production and sales of commodities. Default risk for private credit is very high. Private credit involves autonomous, scattered and blind behavior of borrowing and lending, so that the credit is hard to be standardized and regulated by government financial agencies. Besides, private credit is often conducted orally, so default is common in private credit. Interest rates for private credit are flexible. Private credit adopts floating interest rates which is determined by market supply of and demand for funds. Interest rates for private credit are usually higher than those for bank credit. Private credit usually has short maturities and the size of it is also small. As private credit is credit between individuals, it must be confined, on one hand, to the creditor's financial strength; on the other hand, to debtors' credit state.

The existence of private credit enlarges the scope of financing and promotes the development of commodity economy. Private credit is a supplement to bank credit. Meanwhile the existence and development of private credit brings shock to traditional ways of financing and introduces competitive mechanism into financial field, which promotes changes in business of commercial banks. But we can't neglect the negative effects of private credit since private credit is autonomous and blind, which increases the difficulties for national government to control it.

II. Basic Credit Instruments

Credit instruments are certificates which are issued with legal effect and circulate in a written form in order to protect the rights and obligations to creditors and debtors. To an issuer or a seller, a credit instrument represents a kind of debt; to a holder or a buyer, a credit instrument represents a kind of credit or a financial asset.