普通高等教育金融学专业重点规划教材

金融英语

刘文国　主编

Financial English

上海财经大学出版社

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前　言

随着金融市场的国际化和国际贸易的增长，对金融界从业人员的技能要求，特别是工作语言要求也达到了一个新的高度，拓展金融服务领域、提高语言技能水平是摆在金融从业人员面前的重要任务之一。本书是以提高金融从业人员的专业英语能力而编写的一本教材，主要介绍金融学的基本概念、金融机构、金融产品和服务，具体内容涉及金融学的基本概念、商业银行服务、货币市场、外汇市场、资本市场以及保险市场的产品和服务等内容。

当前，我国的金融市场、金融机构、金融工具和金融创新正处于新的发展阶段，金融业对其工作人员的英语水平也提出了更高的要求。编写一本既能学习英语、又能增加金融知识，特别是常用的技术术语的教材就显得十分必要。本教材正是基于这一必要性，在选材上考虑了金融领域技术的新发展、新动向，也考虑了教材的实用性和新颖性。

本教材可作为金融专业教学用书，也可作为金融从业人员自学专业英语用书。本教材的内容涵盖了金融学的主要方面，从介绍金融专业学生在不同工作岗位应掌握的基本技能开始，介绍了商业银行服务、投资理财以及金融衍生工具的使用，内容新颖实用。

本教材强调内容的实用性，在介绍金融专业知识的同时还穿插介绍了金融工作英语日常用语和会话内容，帮助金融专业的学生、金融界从业人员锻炼和提高英语交流的能力。内容以常用的一问一答和演讲的形式展开，以培养读者能用简单而正确的英语来提问和回答问题的能力，提高英语会话能力。会话内容从开立银行账户到更广泛的外汇兑换、证券投资、保险和房贷业务等方面，由易到难，循序渐进。考虑到当前个人理财市场的需要和发展，本教材还介绍了个人理财的内容，使本教材更显实用性。

本书共分14章6个主题，首先介绍第一个主题金融的定义，接着介绍第二个主题货币市场、商业银行的产品和服务、中央银行的功能和货币政策。第三个主题是外汇市场和汇率，主要介绍外汇市场的功能和汇率的基本知识。第四个主题是融资技术和财务报表阅读，主要内容包括负债融资和权益融资的区别、阅读资产负债表和利润表的方法和步骤，以及理财的重要性。第五个主题是资本市场，主要内容有投资的基本技术，包括债券、股票、共同基金和期货。最后介绍了保险市场和产品。

在此，特别感谢上海财经大学出版社对本书写作和出版给予的大力支持和帮助，并感谢对本书提出意见的各位读者。

由于专业知识水平有限，本书难免存在一些不足和遗漏，欢迎广大读者提出宝贵意见，以利于本教材今后的修订工作。

编　者

2013年9月

Preface

This book introduces the main aspects of finance including money market, foreign currency market, capital market, futures market and insurance market; the commercial banking services and derivative financial instruments are introduced too. The fundamental financial concepts are also presented in the book. Students can get the basic concepts of finance and financial instruments through reading the book.

The book introduces some oral English training contents and conversations, including bank accounts services, foreign exchange, insurance, investment and wealth management consulting.

This book is innovative and practical; it is available for all students and professional persons who major in finance, insurance and investment.

Contents

Chapter 1

Finance

Learning Objectives

After studying this chapter, you should be able to:

- Identify the finance.
- Understand the financial instruments.
- Understand the financial system.
- Understand the financial industry.
- Understand the importance of cash management.
- Identify the capital and capital budget.
- Understand the importance of cash management.
- Understand the financial market.

Finance is often defined simply as the management of money or "funds" management. Modern finance, however, is a family of business activity that includes the origination, marketing, and management of cash and money surrogates through a variety of capital accounts, instruments, and markets created for transacting and trading assets, liabilities, and risks. Finance is conceptualized, structured, and regulated by a complex system of power relations within political economies across state and global markets. Finance is both art (e. g. product development) and science (e. g. measurement), although these activities increasingly converge through the intense technical and institutional focus on measuring and hedging risk-return relationships that underlie shareholder value. Networks of financial businesses exist to create, negotiate, market, and trade in evermore-complex financial products and services for their own as well as their clients' accounts. Financial performance measures assess the efficiency and profitability of investments, the safety of debtors' claims against assets, and the likelihood that derivative instruments will protect investors against a variety of market risks.

The field of finance refers to the concepts of time, money and risk and how they are interrelated. Banks are the main facilitators of funding through the provision of credit, although private equity, mutual funds, hedge funds, and other organizations have become important. Financial assets, known as investments, are financially managed with careful attention to financial risk management to control financial risk.

Financial instruments allow many forms of securitized assets to be traded on securities exchanges such as stock exchanges, including debt such as bonds as well as equity in publicly-traded corporations.

The financial system consists of public and private interests and the markets that serve them. It provides capital from individual and institutional investors who transfer money directly and through intermediaries (e. g. banks, insurance companies, brokerage and fund management firms) to other individuals, firms, and governments that acquire resources and transact business. With the expectation of reaping profits, investors fund credit in the forms of debt capital (e. g. corporate and government notes and bonds, mortgage securities and other credit instruments), equity capital (e. g. listed and unlisted company shares), and the derivative products of a wide variety of capital investments including debt and equity securities, property, commodities, and insurance products. Although closely related, the disciplines of economics and finance are distinctive. The economy is a social institution that organizes a society's production, distribution, and consumption of goods and services, all of which must be financed.

Economists make a number of abstract assumptions for purposes of their analyses and predictions. They generally regard financial markets that function for the financial system as an efficient mechanism. In practice, however, emerging research is demonstrating that such assumptions are unreliable. Instead, financial markets are subject to human error and emotion. New research discloses the mischaracterization of investment safety and measures of financial products and markets so complex that their effects, especially under conditions of uncertainty, are impossible to predict. The study of finance is subsumed under economics as finance economics, but the scope, speed, power relations and practices of the financial system can uplift or cripple whole economies and the well-being of households, businesses and governing bodies within them—sometimes in a single day.

The Main Techniques and Sectors of the Financial Industry

An entity whose income exceeds its expenditure can lend or invest the excess income. On the other hand, an entity whose income is less than its expenditure can raise capital by borrowing or selling equity claims, decreasing its expenses, or increasing its income. The lender can find a borrower, a financial intermediary such as a bank, or buy notes or bonds in the bond market. The lender receives interest, the borrower pays a higher interest than the lender receives, and the financial intermediary pockets the difference.

A bank aggregates the activities of many borrowers and lenders. A bank accepts deposits from lenders, on which it pays the interest. The bank then lends these deposits to borrowers. Banks allow borrowers and lenders of different sizes to coordinate their activity. Banks are thus compensators of money flows in space.

A specific example of corporate finance is the sale of stock by a company to institutional investors like investment banks, who in turn generally sell it to the public. The stock gives whoever owns it part ownership in that company. If you buy one share of XYZ Inc, and they have 100 shares outstanding (held by investors), you are 1/100 owner of that company. Of course, in return for the stock, the company receives cash, which it uses to expand its business; this process is known as "equity financing". Equity financing mixed with the sale of bonds (or any other debt financing) is called the company's capital structure.

Finance is used by individuals (personal finance), governments (public finance), businesses (corporate finance), as well as a wide variety of organizations including schools and non-profit organizations. In general, the goals of each of the above activities are achieved through the use of appropriate financial instruments and methodologies, with consideration to their institutional setting.

Finance is one of the most important aspects of business management. Without proper financial planning, a new enterprise is unlikely to be successful. Managing money (a liquid asset) is essential to ensure a secure future, both for the individual and an organization.

Personal Finance

Personal finance is the application of the principles of finance to the monetary decisions of an individual or family unit. It addresses the ways in which individuals or families obtain, budget, save, and spend monetary resources over time, taking into account various financial risks and future life events. Components of personal finance might include checking and savings accounts, credit cards and consumer loans, investments in the stock market, retirement plans, social security benefits, insurance policies, and income tax management.

Questions revolve around personal finance:

- How much money will be needed by an individual (or by a family), and when?
- Where will this money come from, and how?
- How can people protect themselves against unforeseen personal events, as well as those in the external economy?
- How can family assets be best transferred across generations (bequests and inheritance)?
- How does tax policy (tax subsidies or penalties) affect personal financial decisions?
- How does credit affect an individual's financial standing?
- How can one plan for a secure financial future in an environment of economic instability?

Personal financial decisions may involve paying for education, financing durable goods such as real estate and cars, buying insurance (e. g. health and property insurance), investing and saving for retirement.

Personal financial decisions may also involve paying for a loan, or debt obligations.

Corporate Finance

Corporate finance is an area of finance dealing with the financial decisions corporations make and the tools and analysis used to make these decisions. The primary goal of corporate finance is to maximize corporate value while managing the firm's financial risks. Although in principle, corporate finance is different from managerial finance which studies its financial decisions of all firms, rather than corporations alone, its main concepts are applicable to the financial problems of all kinds of firms.

The discipline can be divided into long-term and short-term decisions and techniques. Capital investment decisions are long-term choices about which projects receive investment, whether to finance that investment with equity or debt, and when or whether to pay dividends to shareholders. On the other hand, the short term decisions can be grouped under the heading "working capital management". This subject deals with the short-term balance of current assets and current liabilities; the focus here is on managing cash, inventories, and short-term borrowing and lending (such as the terms on credit extended to customers).

The terms "corporate finance" and "corporate financier" are also associated with investment banking. The typical role of an investment banker is to evaluate company's financial needs and to raise the appropriate type of capital that best fits those needs.

Managerial or corporate finance is the task of providing the funds for a corporation's activities. For small business, this is referred to as SME finance. It generally involves balancing risk and profitability, while attempting to maximize an entity's wealth and the value of its stock. Long term funds are provided by ownership equity and long-term credit, often in the form of bonds. The balance between these forms the company's capital structure. Short-term funding or working capital is mostly provided by banks extending a line of credit.

Another business decision concerning finance is investment, or fund management. An investment is an acquisition of an asset in the hope that it will maintain or increase its value. In investment management, when choosing a portfolio, one has to decide what, how much and when to invest. To do this, a company must:

- Identify relevant objectives and constraints: institution or individual goals, time horizon, risk aversion and tax considerations.
- Identify the appropriate strategy: active-hedging strategy vs. passive-hedging strategy.
- Measure the portfolio performance.

Financial management is duplicate with the financial function of the accounting profession. However, financial accounting is more concerned with the reporting of historical financial information, while the financial decision is directed toward the future of the firm.

Capital

Financial capital can refer to money used by entrepreneurs and businesses to buy what they need to make their products or provide their services or to that sector of the economy based on its operation, i. e. retail, corporate, investment banking, etc.

Financial capital refers to the funds provided by lenders (and investors) to businesses to purchase real capital equipment for producing goods/services. Real capital comprises physical goods that assist in the production of other goods and services, e. g. shovels for gravediggers, sewing machines for tailors, or machinery and tooling for factories.

Financial capital is provided by lenders for a price: interest. Also see time value of money for a more detailed description of how financial capital may be analyzed.

Furthermore, financial capital, or economic capital, is any liquid medium or mechanism that represents wealth, or other styles of capital. It is, however, usually purchasing power in the form of money available for the production or purchasing of goods, etc. Capital can also be obtained by producing more than what is immediately required and saving the surplus.

Capital, in the financial sense, is the money that gives the business the power to buy goods to be used in the production of other goods or the offering of a service.

The Desirability of Budgeting

Budget is an estimation of the revenue and expenses over a specified future period of time. A budget can be made for a person, family, group of people, business, government, country, multinational organization or just about anything else that makes and spends money. A budget is a microeconomic concept that shows the tradeoff made when one good is exchanged for another.

Budget is a document which documents the plan of the business, this may include the objective of business, targets set, and results in financial terms, e. g. the target set for sale, resulting cost, growth, required investment to achieve the planned sales, and financing source for the investment. Also, budget may be long-term or short-term. Long-term budget has a time horizon of 5 – 10 years giving a vision to the company, short-term budget is an annual one which is drawn to control and operate in that particular year.

Capital Budget

Capital budget is the process in which a business determines whether projects such as building a new plant or investing in a long-term venture are worth pursuing. Oftentimes, a prospective project's lifetime cash inflows and outflows are assessed in order to determine whether the returns generated meet a sufficient target benchmark. This concerns fixed asset requirements for the next five years and how these will be financed.

Cash Budget

Cash budget is an estimation of the cash inflows and outflows for a business or individual for aspecific period of time. Cash budgets are often used to assess whether the entity has sufficient cash to fulfill regular operations and/or whether too much cash is being left in unproductive capacities.

A cash budget is extremely important, especially for small businesses, because it allows a company to determine how much credit it can extend to customers before it begins to have liquidity problems.

For individuals, creating a cash budget is a good method for determining where their cash is regularly being spent. This awareness can be beneficial because knowing the value of certain expenditures can yield opportunities for additional savings by cutting unnecessary costs.

For example, without setting a cash budget, spending a dollar a day on a cup of coffee seems fairly unimpressive. However, upon setting a cash budget to account for regular annual cash expenditures, this seemingly small daily expenditure comes out to an annual total of \$365, which may be better spent on other things. If you frequently visit specialty coffee shops, your annual expenditure will be substantially more.

Working capital requirements of a business should be monitored at all times to ensure that there are sufficient funds available to meet short-term expenses.

The cash budget is basically a detailed plan that shows all expected sources and uses of cash.

The cash budget has the following six main sections:

- Beginning cash balance—contains the last period's closing cash balance.
- Cash collections—include all expected cash receipts (all sources of cash for the period considered, mainly sales).
- Cash disbursements—list all planned cash outflows for the period, excluding interest payments on short-term loans, which appear in the financing section. All expenses that do not affect cash flow are excluded from this list (e. g. depreciation, amortisation, etc).
- Cash excess or deficiency—a function of the cash needs and cash available. Cash needs are determined by the total cash disbursements plus the minimum cash balance required by company policy. If total cash available is less than cash needs, a deficiency exists.
- Financing—discloses the planned borrowings and repayments, including interest.
- Ending cash balance—simply reveals the planned ending cash balance.

Cash and Cash Management

Cash is your business's lifeblood. If it is managed well, your company will remain healthy and strong. If it is managed poorly, your company will go into cardiac arrest.

If you haven't considered cash management as an important issue, then you're probably undermining your business's short-term stability and its long-term survival. But how can you manage business cash better?

Cash management is a broad area having to do with the collection, concentration, and disbursement of cash including measuring the level of liquidity, managing the cash balance, and short-term investments.

If at any time, because of a lack of cash, a corporation fails to pay an obligation when it is due, the corporation is insolvent. Insolvency is the primary reason for firms to go bankrupt. Obviously, the prospect of such dire consequence compels companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy. It improves the profitability and reduces the risk the firm is exposed to.

Cash collection systems aim to reduce the time it takes to collect the cash that is owed to the firm (for example, from its customers). The time delays are categorized as mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment, to a supplier firm does not arrive at its destination instantly. Likewise, the moment the firm receives payment, it is not deposited in its bank account. And finally, when the payment is deposited in the bank account, oftentimes the bank does not give immediate availability to the funds. These three "floats" are time delays that add up quickly, requiring the firm in the meantime to find cash elsewhere to pay its bills. Cash management attempts to decrease the time delays in collection at the lowest cost. A collection receipt point closer to the customer, such as a lock box, with an outside third-party vendor to receive, process, and deposit the payment (check) will speed up the collection. For example, if a firm collects \$10 million each day and can permanently speed up collections by five days, at 6 percent interest rates, then annual before-tax profits would increase by \$3 million. The techniques to analyze this case would utilize data involving where the customers were; how much and how often they pay;

the bank they remit checks from; the collection sites the firm has (their own or a third-party vendor); the costs of processing payments; the time delays involved for mail, processing, and banking; and the prevailing interest rate that can be earned on excess funds.

Once the money has been collected, most firms then proceed to concentrate the cash into one center. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus. There are numerous mechanisms that can be employed to concentrate the cash, such as wire transfers, automated clearinghouse transfers, and checks. The tradeoff is between cost and time.

Disbursement is the opposite of collection. Here, the firm strives to slow down payments. It wants to increase mail delays and bank delays, and it has no control over processing delay.

Another aspect of cash management is knowing the optimal cash balance. There are a number of methods that try to determine the magical cash balance, which should be targeted so that costs are minimized and yet adequate liquidity exists to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity. There are numerous ways to measure this, including: cash to total assets ratio, current ratio (current assets divided by current liabilities), quick ratio (current assets less inventory, divided by current liabilities), and the net liquid balance (cash plus marketable securities less short-term notes payable, divided by total assets). The higher the number generated by the liquidity measure, the greater the liquidity and vice versa. However, there is a trade off between liquidity and profitability that discourages firms from having excessive liquidity.

A key cash management problem (including how much money and for how long) concerns in which money market instruments should the temporary excess funds be placed. This short-term investment decision necessitates the analysis of return (need to annualize returns in order to compare) and liquidity. Only short-term investments meet the liquidity test, as long-duration instruments expose the investor to too much interest rate risk. In addition, federal government obligations are popular due to the absence of default risk and ease of resale in the secondary market. Nonetheless, there are numerous money market securities available with varying characteristics from many types of issuers.

Cash management is evolving with the increasing acceptance and use of electronic payments, such as debit cards. Shifting from paper-based payments to electronic transfers reduces the uncertainty in cash flow forecasting. The change in form of payment decreases both float and per item transaction costs. Stumbling blocks to the complete switchover to electronic payments include the initial equipment investment for businesses and resistance by consumers who still prefer checks.

Nevertheless, the use of electronic versus paper payments is gaining, affecting the importance of current cash management techniques.

Reasons for keeping cash include:

- Cash is usually referred to as the "king" in finance, as it is the most liquid asset.
- The transaction motive refers to the money kept available to pay expenses.
- The precautionary motive refers to the money kept aside for unforeseen expenses.
- The speculative motive refers to the money kept aside to take advantage of suddenly arising opportunities.

Advantages of sufficient cash include:

- Current liabilities may be catered for.
- Cash discounts are given for cash payments.
- Production is kept moving.
- Surplus cash may be invested on a short-term basis.
- The business is able to pay its accounts timeously, allowing for easily-obtained credit.
- Liquidity.

Insurance

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed small loss to prevent a large, possibly devastating loss. An insurer is a company selling the insurance; an insured is the person or entity buying the insurance. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Insurance is the undertaking of one party to indemnify another, in exchange for a premium, against a certain eventuality.

Uninsured risks include:

- Bad debt.
- Changes in fashion.
- Time lapses between ordering and delivery.
- New machinery or technology.
- Different prices at different places.

Requirements of an insurance contract include:

- Insurable interest
  1. The insured must derive a real financial gain from which he is insuring, or stand to lose if it is destroyed or lost.
  2. The item must belong to the insured.
  3. One person may take out insurance on the life of another if the second party owes the first money.
  4. The insured must be some person or item which can be legally insured.
  5. The insured must have a legal claim to which he is insuring.
- Good faith

Uberrimae fidei refers to absolute honesty and the necessity characterise the dealings of both the insurer and the insured.

Finance of States

Public finance is a field of economics concerned with paying for collective or governmental activities, and with the administration and design of those activities. The field is often divided into questions of what the government or collective organizations should do or are doing, and questions of how to pay for those activities. The broader term (public economics) and the narrower term (government finance) are also used.

Country, state, county, city or municipality finance is called public finance. It is concerned with:

- Identification of required expenditure of a public sector entity.
- Source(s) of that entity's revenue.
- The budgeting process.
- Debt issuance (municipal bonds) for public works projects.

Financial Economics

Financial economics is the branch of economics studying the interrelation of financial variables, such as prices, interest rates and shares, as opposed to those concerning the real economy. It is additionally characterized by its "concentration on monetary activities", in which "money of one type or another is likely to appear on both sides of a trade". The questions within financial economics are typically framed in terms of "time, uncertainty, options and information".

Financial economics concentrates on influences of real economic variables on financial ones, in contrast to pure finance.

It studies:

- Valuation—determination of the fair value of an asset.
  1. How risky is the asset? (identification of the asset appropriate discount rate)
  2. What cash flows will it produce? (discounting of relevant cash flows)
  3. How does the market price compare to similar assets? (relative valuation)
  4. Are the cash flows dependent on some other asset or event? (derivatives, contingent claim valuation)
- Financial markets and instruments.
  1. Commodities
  2. Stocks
  3. Bonds
  4. Money market instruments
  5. Derivatives
- Financial institutions and regulation.

Financial econometrics is the branch of financial economics that uses econometric techniques to parameterize the relationships.

Financial Mathematics

Financial mathematics is a main branch of applied mathematics concerned with the financial markets. Financial mathematics is the study of financial data with the tools of mathematics, mainly statistics. Such data can be movements of securities (stocks and bonds etc.) and their relations. Another large subfield is insurance mathematics.

Experimental Finance

Experimental finance aims to establish different market settings and environments to observe experimentally and provide a lens through which science can analyze agents' behavior and the resulting characteristics of trading flows, information diffusion and aggregation, price setting mechanisms, and returns processes. Researchers in experimental finance can study to what extent existing financial economics theory makes valid predictions, and attempt to discover new principles on which such theory can be extended. Research may proceed by conducting trading simulations or by establishing and studying the behavior of people in artificial competitive market-like settings.

Quantitative Behavioral Finance

Quantitative behavioral finance is a new discipline that uses mathematical and statistical methodology to understand behavioral biases in conjunction with valuation. Some of this endeavor has been lead by Gunduz Caginalp (Professor of Mathematics and Editor of *Journal of Behavioral Finance* during 2001 – 2004) and collaborators including Vernon Smith (2002 Nobel Laureate in Economics), David Porter, Don Balenovich, Vladimira Ilieva, Ahmet Duran, Huseyin Merdan. Studies by Jeff Madura, Ray Sturm and others have demonstrated significant behavioral effects in stocks and exchange traded funds.

The research can be grouped into the following areas:

- Empirical studies that demonstrate significant deviations from classical theories.
- Modeling using the concepts of behavioral effects together with the non-classical assumption of the finiteness of assets.
- Forecasting based on these methods.
- Studies of experimental asset markets and use of models to forecast experiments.

Intangible Asset Finance

Intangible asset finance is the branch of finance that deals with intangible assets such as patents (legal intangible) and reputation (competitive intangible). Like other areas of finance, intangible asset finance is concerned with the interdependence of value, risk, and time. Some people refer to this field as "IP Finance".

Related Professional Qualifications

There are several related professional qualifications in finance, that can lead to the field:

- Qualified accountant qualifications: Chartered Certified Accountant (ACCA, UK certification), Chartered Accountant (CA, certification in Commonwealth countries), Certified Public Accountant (CPA, US certification).
- Non-statutory accountancy qualifications: Chartered Cost Accountant (CCA, Designation from AAFM).
- Business qualifications: Master of Business Administration (MBA), Bachelor of Business Management (BBM), Master of Financial Administration (MFA), Doctor of Business Administration (DBA).