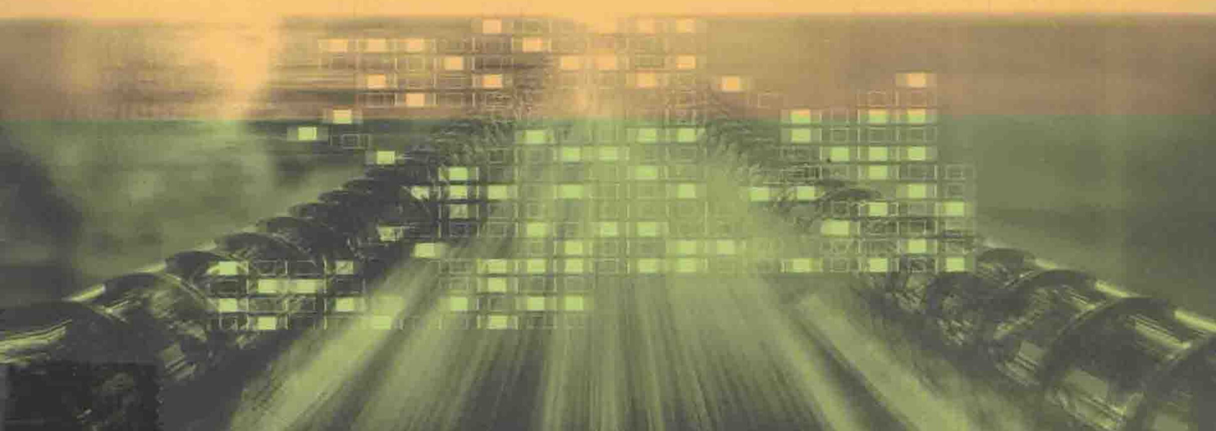
◎ 宁波市服务型教育重点专业（高端贸易与金融专业群）资助

金融理论与实务英语教程

主　编◎贺　翔
副主编◎燕小青　唐　果

Fundamental Theories and Practices of Finance



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前言

金融专业英语证书考试(Financial English Certificate Test，简称 FECT)是我国第一个国家级行业性专业外语证书考试，考试成绩可作为金融系统决定员工录用、职称评定、职务晋升及出国培训人员或外派人员的重要依据。近年来，我国越来越多的金融从业人员和大专院校金融专业学生踊跃参加 FECT 考试。本教材主编多年来在宁波大学从事金融英语教学并指导学生参加 FECT 考试，迫切感到需要一本既适合课堂教学，又有助于学生参加 FECT 考试的教材。本教材正是编者根据金融英语课堂教学的特点及 FECT 考试大纲的要求编写的，是一本适合金融学专业课堂教学或从业人员自学备考的 FECT 辅导教材。教材内容丰富，涵盖金融学专业主要基础理论及实务，包括货币理论、银行管理及银行业务、金融市场及实务、保险基础等。教材中的文章多数来自于近年来国内外英语原版著作、教材及国内权威机构发布的相关报告。

本教材第二章由燕小青编写，第六章由唐果编写，其余各章均由贺翔编写。受编者水平所限，本书难免有疏漏或差错，敬请读者和专家学者提出宝贵的意见和建议。感谢宁波市服务型教育重点专业(高端贸易与金融专业群)对本书出版的资助。

宁波大学　贺　翔

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目 录

Chapter One Money

Preview: Modern economy cannot function without money. To understand the effects of money, we must understand exactly what money is. In this chapter, we look at definition of money, explore functions of money, look at why and how money promotes economic efficiency, trace how its forms have evolved over time, and examine measuring of money and motives of holding money.

1 What Is Money?

There's no single, precise definition of money, even for economists. The following sentence lists a generally approved definition of money.

In sense of economics, the money refers to anything that is generally accepted in payment for goods or services or in the repayment of debts.

At the present time, paper money is used all over the world. The paper by itself is almost worthless, but we know we can exchange the paper for goods and services in stores, restaurants and theaters. Other people are willing to accept these pieces of paper in trade for goods and services because they know they can, in turn, spend the money and pass it on to someone else. If we believe that no one would accept the money, we wouldn't take it. Money has value because it is accepted as the means of exchange.

The word "money" is frequently used as synonym of the word wealth.

When people say, "Joe is very rich, he has an awful lot of money", they probably mean that Joe not only has a lot of currency and a high balance in his checking account, but also has stocks, bonds, cars, houses and a yacht. Here the word "money" exactly means wealth.

Wealth involves not only money but also other assets such as stocks, bonds, land, antiques, land, houses, jewelry and cars.

In daily use, people also use the word "money" to describe what economists call "income". For example, when we say, "John is a man of great ability, he earns a lot of money." In reality, in economic terms, income means a flow of earnings per unit of time. However, money is a stock which means a certain amount at a given point in time.

2 Development of Money

2.1 Emergence of Money

The emergence of money is a very important thing in the development of human civilization. It's a slow process and the forms of money have changed over time.

Before the emergence of money, people exchanged by barter. In barter exchange, there's a problem of double coincidence of wants which makes transactions complicated and inefficient. Trade by barter requires a double coincidence of wants. That is, each trader must find a trading partner who wants what he offers and offers what he wants. For example, if a potter wants to buy a pizza, he needs to find a pizza maker who wishes to exchange a pizza for a ceramic bowl. What if the pizza maker isn't interested in pottery and wants a shirt instead? The potter then has to first find someone who wants to trade a shirt for a bowl before trading with the pizza maker. In addition, a pizza or a shirt may not be equal in value to a bowl, raising the problem of making change. Barter is costly in terms of the time and effort required in finding a trade partner.

Deterioration, indivisibility and differences in quality of various bartered items make comparison and setting of exchange rates between goods very difficult. The difficulties and inefficiency of barter exchange led to the emergence of money. Use of money eliminates the need for the double coincidence of wants by finding the commodity that everyone will accept in trade, and saves on the search and transaction costs involved in bartering.

2.2 Types of Money

From primitive money to today's paper money, various types of money can be classified into three types.

2.2.1 Commodity Money

This kind of money has intrinsic value besides exchange value. Money made up of precious metals or other valuable commodities is called full-bodied money or commodity money. From ancient time to several hundreds years ago, commodity money functioned as the medium of exchange in almost all societies. The problem with a payment system based exclusively on precious metals is that such form of money is heavy and is hard to carry from one place to another.

2.2.2 Representative Money

This type is more convenient than full-bodied money and is fully convertible into full-bodied money.

Since large quantities of gold or silver are difficult and risky to carry around, people invented representative money. Representative money are usually made of paper, they are certificates issued to stand in place of a particular quantity of gold, silver or other commodities. They are fully backed by the commodity.

In Virginia during colonial times, certified tobacco warehouse receipts once served as money, the receipts could be exchanged for tobacco.

Gold certificates were commonly issued during the Middle Ages in Europe and even earlier in China. The owner was entitled to reclaiming the gold or silver equal to the face value of the certificate.

2.2.3 Credit Money

Modern monetary systems are based on credit. Modern monies are almost all credit money, they are backed by bank's or government's promise to pay. Credit money has no value apart from its value in exchange.

The most common types of credit money are paper currency and checkable accounts at commercial banks (checks written on the drawer's checking account).

Governments often need money to finance wars or public projects, and they sometimes print money to pay their bills.

Paper currency can take the place of precious metal acting as medium of exchange. As long as the quantity of paper currency issued is about equal to the quantity of metal money needed in circulation, the purchasing power of paper currency can be equal to that of metal money.

However, if the quantity of paper currency issued exceeds that of metal money needed in circulation, the paper currency will be depreciated (inflation).

Slight inflation is considered beneficial to hit high employment target and promote economic growth.

On the contrary, rapid inflation (also called hyperinflation) will do great harm to national economy.

2.2.4 E-Money

It is money exists only in electronic form. Debit cards and credit cards are examples of e-money, these cards enable consumers to purchase goods and services by electronically transferring funds from their bank accounts to a merchant's account. A more advanced form of e-money is the stored-value card. Stored-value card is purchased for a preset amount that the consumer pays up front, like a prepaid phone card. Smart-card is a form of more sophisticated stored-value card. It contains a computer chip that allows it to be loaded with digital cash from the owner's bank account whenever needed. A third form of electronic money is often referred to as e-cash, which is used in the Internet to purchase goods or services. A consumer gets e-cash by setting up an account with a bank that has links to the Internet and then has the e-cash transferred to his PC. When he wants to buy something with e-cash, he surfs to a store on the Web and clicks the "buy" option for a particular item, and then the e-cash is automatically transferred from the consumer's bank account to the merchant's account.

2.3 Effects of Money

What influences (or effects) does money have on the evolution of a society?

Firstly, money facilitates exchange, the place and timing of buying and selling is separated by the use of money. Besides this, use of money also provides the means for division of labor and specialization. And division of labor and specialization can increase the total output of a society.

3 Desirable Properties of Money

Many commodities have served as money, and they have some common characteristics. These commodities are scarce, divisible, portable and durable.

3.1 Scarcity

Scarcity is a key property. The general level of prices relates directly to the quantity of money in circulation. Sand is not a good choice for money because it is too easy to have in large quantities. Scarcity is one reason why precious metals serve as money for a long time and universally in the past.

3.2 Durability

Perishable commodities such as apples or fragile commodities such as glass would not serve well as money.

3.3 Portability

Portability is an important attribute of money because money serves as medium in exchange. Portability is especially critical when people have to convert their assets to a form that can be carried and concealed.

3.4 Divisibility

Divisibility is essential in making transactions. It has to be possible to make change. Divisibility and portability make cows, houses and other large, heavy assets very unsatisfactory forms of money.

3.5 Uniformity

Uniformity is an essential quality of money that rules out many commodities. Cows can be fat or thin, healthy or sick, and their value as money would vary accordingly. The advantage of paper money or precious metals is that it is easy to verify uniformity. The purity of gold or silver can be tested by weight or vouched by a stamp of approval, as on coins.

4 Functions of Money

4.1 Medium of Exchange

Most people acquire money by engaging in a specialized skill and use money to purchase goods or services. The reason why we need money is that it can be exchanged for the commodities or services we want. Money is a means rather than an end for us. Money simplifies the process of exchange, reduces the time and effort involved in exchange.

4.2 Unit of Account

Money acts as a standard by which the value of other commodities or services is measured. If various materials and sales of cars are not measured in terms of money, it will be complicated and time-consuming for the manufacturers to evaluate them. With a widely accepted "unit of account", we can easily compare the value of various commodities.

4.3 Store of Value

Money can store purchasing power, so people may hold money in reserve as a precaution for contingencies. Money is not the only way to store value, stocks, bonds, antiques and jewelry also store value, but their liquidity and acceptability is not as good as that of money. Money is a more reasonable means of storing purchasing power.

4.4 Deferred Payment

Money can be used to pay off debts, pay rents, salaries or taxes, it has the function of deferred payment. This function developed with the emergence of credit sale and credit buying. House purchase by a mortgage is an example of this function, the use of money facilitates this type of transaction. The development of borrowing and lending would be unimaginable without money.

5 Measuring Money

As we have known, the key function of money is that it is used as a medium of exchange. Therefore, currency, checking account deposits, and traveler's checks can all be used to pay for goods and services and clearly function as a medium of exchange. Therefore, these assets should be included in a measure of money.

Other assets also function like a medium of exchange but are not as liquid as currency and checking account deposits. Others such as savings account at banks can similarly be turned into cash without incurring appreciable costs. Economists suggest that what to call money should be based on which measure of money works best in predicting movements of variables that money is supposed to explain.

For example, we might look at which measure of money work best in predicting the inflation rate or the business cycle, and then officially designate it as the preferred measure of the money supply.

The Federal Reserve System (the Fed), has modified its definitions of money supply several times since 1980, and has settled on the following measures of money supply, which are also referred to as monetary aggregate.

M1 = Currency + Traveler's checks
+ Demand deposits
+ Other checkable deposits
M2 = M1 + Small-denomination time deposits
+ Savings deposits and money market deposit accounts
+ Money market mutual fund shares(non-institutional)
M3 = M2 + Large-denomination time deposit
+ Money market mutual fund shares(institutional)
+ Term repurchase agreements
+ Term Eurodollars
L = M3 + Short-term Treasury securities
+ Commercial paper
+ Banker's acceptance

The narrowest definition of money that the Fed reports is M1. These assets are clearly money because they can be used directly as a medium of exchange.

The M2 monetary aggregate adds to M1 other assets that have checking-writing features and other assets that are extremely liquid because they can be turned into cash quickly at very little cost.

The M3 monetary aggregate adds to M2 somewhat less liquid assets such as large-denomination time deposits, term repurchase agreements, term Eurodollars and institutional money market mutual fund shares.

The final measure, L, which is not a measure of money but rather a measure of highly liquid assets, adds to M3 several types of securities.

6 Motives for Holding Money

Keynes identified three motives for holding money or three reasons why individuals and organizations demand money. The three motives include transactions demand, precautionary demand and speculative demand.

6.1 The Transactions Demand

Everyone needs to hold money to carry out routine transactions such as paying for bus fares or lunch, purchasing groceries, paying electricity bills and so on. Similarly, firms hold money in order to meet routine payments such as wages, payment for raw materials, power and so on.

The transaction demand arises because payments and receipts of income are not perfectly synchronized. For most individuals and organizations, and for the community as a whole, when income rises, expenditure increases as well. Income is a key determinant of the transaction demand for money.

6.2 Precautionary Demand for Money

The precautionary demand represents money that is held as a precaution against some unforeseen event such as unanticipated reduction in prices. If we hold precautionary balances, we can take advantage of such price reductions. In addition, precautionary balances are also held as a cushion against an unanticipated interruption in obtaining receipts. For example, firms, in particular, are not always certain when they will receive payment for sales of goods. Late receipt of payments might create cash flow problems for firms and make it difficult for them to make purchases. To minimize such problems, firms and individuals hold precautionary balances.

A major determinant of precautionary balances is the level of income. An individual with an annual income of 30,000 dollars is likely to hold larger precautionary balances than an individual with an annual income of 5,000 dollars. Another factor of considerable importance in modern economies is overdraft facilities. Firms and individuals probably hold less precautionary balances if they can conveniently borrow money from financial institutions.

6.3 Speculative Demand for Money

Keynes considered only two forms of holding wealth: money and bonds. The problem is to decide when money will be preferred to bonds, and vice versa.

The crux of the matter is that in normal terms, the value of money is fixed. A $1 coin has the same face value tomorrow as that it has today. However, the value or price of a bond varies. Money will be preferred to bonds if bond prices are expected to fall. On the other hand, if bond prices are expected to rise, holders of bonds will make a capital gain, and then bonds will be preferred to money.

This is very important because bond prices and interest rate move in opposite directions. A rise in the interest rate implies a fall in bonds prices, and vice versa. When interest rates are below an investor's view of the normal rate, his expectation will be that the next change in interest rates will be upwards. Because of the inverse relationship between bonds prices and the interest rate, an investor will expect bond prices to fall. In this case, the investor will prefer money to bonds because holding bonds would involve him in a capital loss. The higher the interest rate moves, the more investors will come to believe that the next change in the interest rate will be downwards. And bonds will increasingly be preferred to money. The opposite is also true. The lower the interest rate falls, the more investors will come to expect the next change in the rate of interest to be upwards. This implies a fall in bond prices and investors will increasingly prefer money to bonds thus avoiding capital loss.