MOHAMED-CHERIF MESSAADIA UNIVERSITY - SOUK AHRAS
Faculty of Economics, Commerce and Management Sciences
Basic Education Department
Foreign Language 2 (English)
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LESSON 03

Introduction to Finance

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CONTENTS:

1- What Does Finance Mean?

A- What Is Finance?

The term finance refers to the **management, development, and study** of **money and investments**. It entails the use of credit and debt, securities, and investment to fund current projects with future earnings. Because of this temporal aspect, finance is strongly related to the **time value of money**, **interest rates, and other relevant subjects**.

Finance can be broadly divided into three categories: **Public finance; Corporate finance Personal finance.**

There are many other specific categories, such as **behavioral finance**, which seeks to identify the cognitive (e.g., emotional, social, and psychological) reasons behind financial decisions.

KEY TAKEAWAYS

- Finance is a term broadly describing the study and system of money, investments, and other financial instruments.
- Finance can be divided broadly into three distinct categories: public finance, corporate finance, and personal finance.
- More recent subcategories of finance include social finance and behavioral finance.
- The history of finance and financial activities dates back to the dawn of civilization
- While it has roots in scientific fields, such as statistics, economics, and mathematics, finance also includes non-scientific elements that liken it to an art.

B- Key Finance Terms:

Term	Meaning
Asset	Something of value, such as cash, real estate, or property. A business may have current assets or fixed assets.
Liability	A financial obligation, such as debt. Liabilities can be current or long-term.
Balance sheet	A document that shows a company's assets and its liabilities. Subtract the liabilities from the assets to see the firm's net worth.
Cash flow	The movement of money into and out of a business or household.
Compound interest	Unlike simple interest, which is interest added to the principal one time, compound interest is calculated and added periodically. This results in interest being charged not only on the principal, but also on the interest already accrued.
Equity	Ownership. Stocks are called equities, because each share represents a portion of ownership.
Liquidity	How easily an asset can be converted to cash. For example, real estate is not a very liquid investment, because it can take weeks or months to sell.
Profit	Profit is the money left over after expenses. A profit and loss statement shows how much a business has earned or lost for a particular period.

C- Basic Areas of Finance:

Public Finance:

Public finance includes tax, spending, budgeting, and debt issuance policies that affect how a government pays for the services it provides to the public.

Corporate Finance:

Corporate finance refers to the financial activities related to running a company or business, usually with a division or department set up to oversee those financial activities.

Personal Finance:

Personal finance involves money matters for individuals and their families, including budgeting, strategizing, saving and investing, purchasing financial products, and safeguarding assets. Banking is also considered a component of personal finance.

2- Shares & Stocks

A- Shares vs. Stocks: What's the Difference?

The distinction between stocks and shares in the financial markets is **blurry**. Generally, in ***American English***, both words **are used interchangeably** to refer to financial ***equities***, specifically, securities that denote ownership in a public company. (In the good old days of paper transactions, these were called stock certificates). Nowadays, the difference between the two words has more to do with syntax and is derived from the context in which they are used.

KEY TAKEAWAYS

- For all intents and purposes, stocks and shares refer to the same thing.
- The minor distinction between stocks and shares is usually overlooked, and it has more to do with syntax than financial or legal accuracy.
- To invest in stocks or, more specifically, to invest in shares of a company's stock, you will need your own brokerage account.

B- Similar Terminology:

Of the two, "**stocks**" is the more general, generic term. It is often used to describe a **slice of ownership** of one or more companies. In contrast, in common parlance, "**shares**" has a more specific meaning: It often refers to the **ownership of a particular company**.

The interchangeability of the terms stocks and shares applies mainly to American English. The two words still carry considerable distinctions in other languages. **In India**, for example, as per that country's Companies Act of 2013, **a share is the smallest unit** into which the company's capital is **divided**, representing the ownership of the shareholders in the company, and can be only partially paid up. **A stock**, on the other hand, is **a collection of shares** of a member, converted into a single fund that is fully paid up.

Are shares and stocks the same thing?
For all intents and purposes, **yes**. Both shares and stocks refer to **equity ownership** in corporations, and owners can be referred to as either **shareholders or stockholders**.

UK vs US

In British English, "shares" is more commonly used than stocks, especially when talking about individual listed companies. In American English, "stocks" is more commonly used.

In either the UK or US, however, there is no practical difference between the terms stocks and shares.

3- Banking

A- What Is a Bank?

A bank is a **financial institution** that is licensed to ***accept checking and savings deposits and make loans***. Banks also provide related services such as **individual retirement accounts** (IRAs), **certificates of deposit** (CDs), **currency exchange**, and **safe deposit boxes**.

KEY TAKEAWAYS

- A bank is a financial institution licensed to receive deposits and make loans.
- There are several types of banks including retail, commercial, and investment banks.
- In most countries, banks are regulated by the national government or central bank.

Banks have existed since at **least the 14th century**. They provide a safe place for consumers and business owners to stow their cash and a source of loans for personal purchases and business ventures. In turn, the banks use the cash that is deposited to make loans and collect interest on them.

Basic Bank Services:

Banks offer various ways to stash your cash and various ways to borrow money:

Checking Accounts; Savings Accounts; Loan Services;

B- Types of Banks:

Type	Description
Retail Banks	Retail banks offer their services to the **general public** and usually have branch offices as well as main offices for the convenience of their customers.
Commercial Banks	Commercial or corporate banks tailor their services to **business clients**, from small business owners to large, corporate entities.
Investment Banks	Investment banks focus on providing corporate clients with complex services and financial transactions such as **underwriting and assisting** with **merger and acquisition (M&A) activity**.
Central Banks	Unlike the banks above, central banks **does not deal directly with the public**. A central bank is an **independent institution** authorized by a government to **oversee the nation's money supply and its monetary policy**.