#### Introduction to finance

Luděk Benada

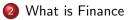
Department of Finance, office - 402

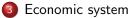
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## Content

Covered areas of the course







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## Content

Covered areas of the course

#### 2 What is Finance





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General introduction

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- General introduction
- Financial markets

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- General introduction
- Financial markets
- Bank and banking system

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- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions

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- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money

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- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:
    - Annuities I

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- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:
    - Annuities I
    - Annuities II

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:
    - Annuities I
    - Annuities II
  - Corporate finance

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:
    - Annuities I
    - Annuities II
  - Corporate finance
    - Investment

- General introduction
- Financial markets
- Bank and banking system
- Other financial institutions
- Time value of money ... Test 01
  - Personal finance:
    - Annuities I
    - Annuities II
  - Corporate finance
  - Investment
  - International finance & International financial system

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## Why study finance?

... own financial situation

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- ... own financial situation
- ... career opportunities

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- ... own financial situation
- ... career opportunities
- ... understand world of business

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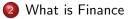
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- ... own financial situation
- ... career opportunities
- ... understand world of business
- ... understand political environment

- ... own financial situation
- ... career opportunities
- ... understand world of business
- ... understand political environment
- ... answer different questions ...



Covered areas of the course







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## Finance

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Finance is the study of **concepts**, **applications**, and **systems** that affects the value *(or wealth)* of **individuals**, **companies**, and **countries** over the short and long term.

The field of finance includes both *quantitative* and *qualitative* aspects.

## Beware of simple judgments

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## Beware of simple judgments

, because . . .

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#### Beware of simple judgments

, because . . .

# $F I N A N C E \neq MONEY$

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## Cash

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## Cash X

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## Cash X Cashless

Functions of money:

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## Cash X Cashless

Functions of money:

Medium of exchange

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## Cash X Cashless

Functions of money:

Medium of exchangeUnit of account

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## Cash X Cashless

Functions of money:

- Medium of exchange
- Unit of account
- Store of value

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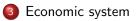
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Covered areas of the course







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Households

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#### Firms

#### Government

Foreign sector

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Image: A matrix

## Illustration of a simple economic model

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## Surplus spending units

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#### Have more cash income flow than expenditure

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Have more cash income flow than expenditure ■ Other terms for SSU – savers, lenders, ....

- Have more cash income flow than expenditure ■ Other terms for SSU – savers, lenders, ....
- Offer their money

Have more cash income flow than expenditure
Other terms for SSU - savers, lenders, ...
Offer their money (buy assets, deposits etc.)

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- Have more cash income flow than expenditure
- Other terms for SSU savers, lenders, ....
- Offer their money (buy assets, deposits etc.)
- Usually

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- Have more cash income flow than expenditure
- Other terms for SSU savers, lenders, ....
- Offer their money (buy assets, deposits etc.)
- Usually Households

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- Have more cash income flow than expenditure
- Other terms for SSU savers, lenders, ....
- Offer their money (buy assets, deposits etc.)
- Usually Households and

- Have more cash income flow than expenditure
- Other terms for SSU savers, lenders, ....
- Offer their money (buy assets, deposits etc.)
- Usually Households and Foreign sector

## Deficit spending units

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Have more expenditures on consumption and real goods

Have more expenditures on consumption and real goods

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Image: A matrix

Have more expenditures on consumption and real goods
Must participate in the financial sector

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- Have more expenditures on consumption and real goods
- Must participate in the financial sector
- Other terms for DSU -

Have more expenditures on consumption and real goods

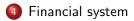
Must participate in the financial sector

Other terms for DSU - (Borrower, demand-er of loadable funds, seller of securities, etc.)

## Content

Covered areas of the course

- 2 What is Finance
- 3 Economic system



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## Definition of a Financial system

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Financial system represents a system that allows the **transfer of capital** between **savers** and **borrowers**. It comprises a set of complex and closely interconnected financial **institutions**, **markets**, **instruments**, **services**, **practices**, and **transactions**.

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#### The most important functions of the financial system include:

Money transferring

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- Money transferring
- Risk sharing

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- Money transferring
- Risk sharing
- Clearing & Settlement

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- Money transferring
- Risk sharing
- Clearing & Settlement
- Aggregation and dis-aggregation of financial resources

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- Money transferring
- Risk sharing
- Clearing & Settlement
- Aggregation and dis-aggregation of financial resources
- Shifting of financial resources over *time*, *space* and *sectors*

- Money transferring
- Risk sharing
- Clearing & Settlement
- Aggregation and dis-aggregation of financial resources
- Shifting of financial resources over *time*, *space* and *sectors*
- Providing information for decision-making processes

#### The most important functions of the financial system include:

- Money transferring
- Risk sharing
- Clearing & Settlement
- Aggregation and dis-aggregation of financial resources
- Shifting of financial resources over *time*, *space* and *sectors*
- Providing information for decision-making processes
- Helping in managing uncertainty and risk

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## Form of the financial system

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# The character of the financial sector depends on the institutional composition and practices.

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# The character of the financial sector depends on the institutional composition and practices.

There can be significant differences across countries, such as:

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# The character of the financial sector depends on the institutional composition and practices.

There can be significant differences across countries, such as:

USA

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# The character of the financial sector depends on the institutional composition and practices.

There can be significant differences across countries, such as:

### USA X

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# The character of the financial sector depends on the institutional composition and practices.

There can be significant differences across countries, such as:

USA X GERMANY

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## Financial claim

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## Financial intermediaries

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Main functions of FI:

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Main functions of FI:

Maturity transforming

### Main functions of FI:

- Maturity transforming
- Risk transforming

## Main functions of FI:

- Maturity transforming
- Risk transforming
- Convenience denomination

## Adventagies of FI

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## Adventagies of FI

## Costs benefits

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▶ Reconciling conflicting preferences of lenders and borrowers

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- ▶ Reconciling conflicting preferences of lenders and borrowers
- ▶ Helping spread out the risk

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- Reconciling conflicting preferences of lenders and borrowers
- Helping spread out the risk
- Reducing costs of lending and borrowing Economies of scale

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- Reconciling conflicting preferences of lenders and borrowers
- Helping spread out the risk
- Reducing costs of lending and borrowing Economies of scale
- Market failure protection

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