

**University of OEB**

**Academic Year: 2023/2024**

**Department of Economic Sciences**

**Third Year Licence Monetary and Banking Economics**

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## **Lecture 05: Banking**

### **Definition**

Banks play a crucial role in the economic development of a country. They are financial institutions that provide a wide range of services, including accepting deposits, granting loans, and facilitating financial transactions. Banks act as intermediaries between savers and borrowers, contributing to the efficient allocation of resources in the economy.

Banks offer various types of accounts, such as savings accounts and current accounts, to individuals and businesses. These accounts provide a safe place for depositors to store their money while earning interest. Banks, in turn, use these deposits to extend loans to borrowers for various purposes, such as starting a business or purchasing a home.

One of the primary functions of banks is to create a stable financial environment by managing the money supply. Through monetary policy, central banks regulate the money circulating in the economy to control inflation and ensure economic stability. Banks also facilitate international trade by providing services such as letters of credit and foreign exchange.

## **Banking Activities:**

- **Investment Banking:**

Investment banks play a pivotal role in facilitating capital raising activities for corporations. They assist companies in issuing stocks and bonds to raise funds for expansion or other financial needs. Additionally, investment banks offer advisory services on mergers and acquisitions, helping businesses strategically grow or streamline operations

- **Retail Banking Services:**

In addition to traditional banking services, many banks offer retail services such as credit cards, personal loans, and mortgages. These services cater to individual consumers and contribute to the overall economic well-being by promoting consumption and homeownership.

- **Technological Innovations in Banking:**

The banking sector has witnessed significant technological advancements in recent years. Online banking, mobile apps, and digital wallets have transformed the way customers interact with financial institutions. This digital revolution has not only enhanced customer convenience but has also increased the efficiency of banking operations.

- **Central Banking and Monetary Policy:**

Central banks, like the Federal Reserve in the United States or the European Central Bank, play a crucial role in maintaining monetary stability. They influence interest rates, control the money supply, and implement policies to achieve economic objectives such as full employment and price stability.

- **Global Banking and Financial Markets:**

Banks operate not only at the national level but also on a global scale. International banks facilitate cross-border trade and investment by providing services like trade finance and currency exchange. Financial markets, where various financial instruments are traded, are integral to the global banking system.

### **Reading Comprehension**

- What is the role of banks in the economic development of a country?
- Explain the function of savings accounts and current accounts.
- How do banks contribute to the efficient allocation of resources in the economy?
- What is the significance of monetary policy in the banking sector?
- How do investment banks contribute to the growth of corporations?
- What role do central banks play in maintaining monetary stability?
- How do international banks contribute to cross-border trade and investment?

### **Vocabulary**

***Activity One: Identify synonyms for the following words used in the text:***

- a. Pivotal
- b. Advancements
- c. Integral
- d. Implications

**Activity Two: Match the terms with their appropriate definition**

- a. Capital raising b. Digital wallets c. Trade finance d. Monetary stability

Definitions

- 1- Financial services and instruments, including letters of credit and financing, that facilitate international trade by mitigating the risks associated with cross-border transactions.
- 2- The condition in which the purchasing power of a currency remains relatively constant over time, achieved through effective management of the money supply and monetary policy to control inflation and ensure economic stability.
- 3- Virtual wallets that allow users to store, manage, and make electronic transactions with their digital assets, such as credit cards, debit cards, and cryptocurrencies.
- 4- The process by which a company increases its funds by issuing stocks or bonds to investors. This capital is often used for business expansion, research and development, or other financial needs.

**Activity Three:**

- a. \_\_\_\_\_ play a pivotal role in facilitating capital \_\_\_\_\_ activities for corporations.
- b. The digital revolution has transformed the way customers interact with financial institutions, enhancing \_\_\_\_\_ convenience.
- c. \_\_\_\_\_ facilitate cross-border trade by providing services such as \_\_\_\_\_ and currency exchange.
- d. Central banks aim to maintain \_\_\_\_\_ stability through the regulation of interest rates and the control of the money \_\_\_\_\_.