University of OEB **Academic Year: 2024/2025**

Department of Economic Sciences

Third Year Licence Monetary and Banking Economics

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Lecture 02: Forms of Banks and Financial Institutions

Banks and financial institutions play a crucial role in the economy by facilitating transactions, providing credit, and managing financial assets. They exist in various forms, each serving different functions and catering to specific needs. Below are some of the main types of banks and financial institutions:

1. **Commercial Banks** Commercial banks are the most common type of financial institutions. They offer services such as accepting deposits, providing loans, and facilitating payment systems. They serve individuals, businesses, and governments. Examples include JPMorgan Chase, HSBC, and Citibank.
2. **Central Banks** A central bank is a national institution responsible for regulating the banking system and implementing monetary policies. It controls money supply, sets interest rates, and ensures financial stability. Examples include the Federal Reserve (USA), the European Central Bank (ECB), and the Bank of Algeria.
3. **Investment Banks** Investment banks focus on corporate financial services, including underwriting securities, mergers and acquisitions, and asset management. Unlike commercial banks, they do not accept deposits from the public. Examples include Goldman Sachs and Morgan Stanley.
4. **Islamic Banks** Islamic banks operate according to Islamic finance principles, which prohibit interest (riba) and promote risk-sharing. Instead of traditional loans, they offer financial products like profit-sharing agreements (Mudaraba) and joint ventures (Musharaka). Examples include Al Baraka Bank and Dubai Islamic Bank.
5. **Development Banks** Development banks provide long-term financing for infrastructure, industrial projects, and economic development programs. They support sectors like agriculture, housing, and small businesses. Examples include the African Development Bank (AfDB) and the World Bank.
6. **Microfinance Institutions** Microfinance institutions (MFIs) provide small loans and financial services to low-income individuals or small businesses that lack access to traditional banking. They help promote entrepreneurship and financial inclusion in developing economies.

Each type of financial institution plays a specific role in supporting economic growth, ensuring financial stability, and meeting the diverse needs of individuals and businesses. Understanding their functions is essential for students of economics and finance as they prepare for careers in the financial sector.

Reading Comprehension Questions:

1- What are the primary functions of banks and financial institutions?
2- How do commercial banks differ from investment banks?
3- What is the role of central banks in the economy?
4- What types of projects do development banks typically finance?
5- Why are microfinance institutions important in developing economies?
6- What are some examples of well-known commercial and investment banks?
7- Why is understanding different types of financial institutions important for economics students?

Vocabulary Section

Fill in the gaps with the correct term from the following list:

Commercial Bank, Central Bank, Investment Bank, Islamic Bank, Development Bank, Microfinance Institution, Financial Institution, Monetary Policy

1. The ………………… is responsible for controlling the money supply and setting interest rates in a country.
2. An ………………… helps large businesses with mergers, acquisitions, and stock market activities.
3. People who do not qualify for traditional bank loans can seek help from a ………………………..
4. In some countries, …………….. operate based on Sharia principles and do not charge interest.
5. Farmers and small business owners can get long-term loans from a ………………… to grow their businesses.

6. A **……………….** is a broad term that includes banks, credit unions, and other financial service providers.
7. The **……………….** of a country influences inflation, employment, and overall economic stability.
8. Businesses and individuals can deposit money or apply for loans at a ……………...