

**University of OEB**

**Academic Year: 2024/2025**

**Department of Economic Sciences**

**Third Year Licence Monetary and Banking Economics**

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### **Lecture 04: Bank Operations**

Banks play a crucial role in the economy by providing financial services to individuals, businesses, and governments. Their main function is to manage money by accepting deposits, granting loans, and facilitating transactions. Through these activities, banks support economic growth and financial stability.

One of the primary operations of a bank is accepting deposits from customers. People and businesses deposit their money in savings accounts, checking accounts, or fixed deposits to keep their funds safe. In return, banks may offer interest on certain types of deposits. These deposits provide banks with the necessary funds to issue loans.

Lending is another key function of banks. They provide loans to individuals for personal needs, such as buying a house or a car, and to businesses for investment and expansion. Banks charge interest on these loans, which serves as their main source of income. Interest rates vary depending on factors like the type of loan, the borrower's credit history, and economic conditions.

Banks also facilitate payments and transactions. Customers can transfer money through various methods, such as bank transfers, credit cards, and online banking. In addition, banks issue debit and credit cards, allowing people to make purchases without using cash. Modern banking has evolved with technology, making transactions faster and more convenient through mobile banking and digital payment systems.

Another important operation of banks is foreign exchange services. They allow customers to exchange one currency for another, which is essential for international trade and travel. Banks also help businesses manage currency risk by offering financial instruments like forward contracts and hedging services.

Finally, banks play a role in financial stability by ensuring a secure and efficient financial system. Central banks regulate commercial banks to prevent financial crises and

maintain confidence in the banking sector. By controlling interest rates and money supply, central banks influence economic activity and inflation.

Overall, banks serve as the backbone of the economy by managing money, supporting businesses, and facilitating transactions. Their operations impact individuals and companies, making them an essential part of modern economic systems.

## **Reading Comprehension Questions**

### **Part 1: Short answer Questions**

- 1- What is the main role of banks in the economy?
- 2- How do banks contribute to financial stability?
- 3- What is the primary function of a bank regarding deposits?
- 4- How do banks generate profit from lending?
- 5- What are the different ways banks facilitate financial transactions?
- 6- Why are foreign exchange services provided by banks important?

### **Part 2: True/False**

- 1- Banks only provide services to individuals, not businesses or governments.
- 2- One of the main functions of banks is accepting deposits from customers.
- 3- Banks earn their main source of income by charging interest on loans.
- 4- All bank deposits earn interest, regardless of the type of account.
- 5- Banks facilitate financial transactions through methods such as bank transfers, credit cards, and online banking.
- 6- Foreign exchange services are unnecessary for international trade and travel.
- 7- A central bank plays an important role in regulating commercial banks and maintaining financial stability.
- 8- Banks have become less dependent on technology in recent years.
- 9- If banks stopped lending money, economic growth could slow down.

## Vocabulary Section

Complete the sentences using the words from the box below.

*Deposits, Loans, Transactions, Interest, Foreign exchange, Central bank, Profit, Customers*

- Banks accept \_\_\_\_\_ from individuals and businesses to keep their money safe.
- One of the main functions of banks is providing \_\_\_\_\_ to people and companies who need financial support.
- Banks charge \_\_\_\_\_ on the money they lend, which is their main source of income.
- People and businesses rely on banks to complete financial \_\_\_\_\_ such as payments and money transfers.
- The \_\_\_\_\_ service allows people to convert one currency into another for trade and travel.
- A \_\_\_\_\_ regulates commercial banks and ensures financial stability in the economy.
- Banks make a \_\_\_\_\_ by charging fees and collecting interest on loans.
- Many \_\_\_\_\_ use online banking to check their balances and transfer money.