



@mariaenglishlessons

BUSINESS LESSON

UNDERSTANDING BANKS





LESSON OBJECTIVES

By the end of this lesson, you will be able to:



Explain the primary functions of banks.

Understand how banks operate and generate revenue.



Discuss the role of banks in the economy.

Identify the types of banks and the services they offer.



Analyze the impact of interest rates and loans on businesses and individuals.

INTRODUCTION TO BANKS

WHAT IS A BANK?



A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes.





ROLE OF BANKS IN THE ECONOMY

Financial Intermediation: Banks act as intermediaries between savers and borrowers, facilitating the flow of money in the economy.

Payment System: Banks provide the infrastructure for the payment system, allowing individuals and businesses to conduct transactions efficiently.

Economic Stability: By managing money supply and providing credit, banks play a critical role in maintaining economic stability and growth.

Functions of Banks

Accepting Deposits

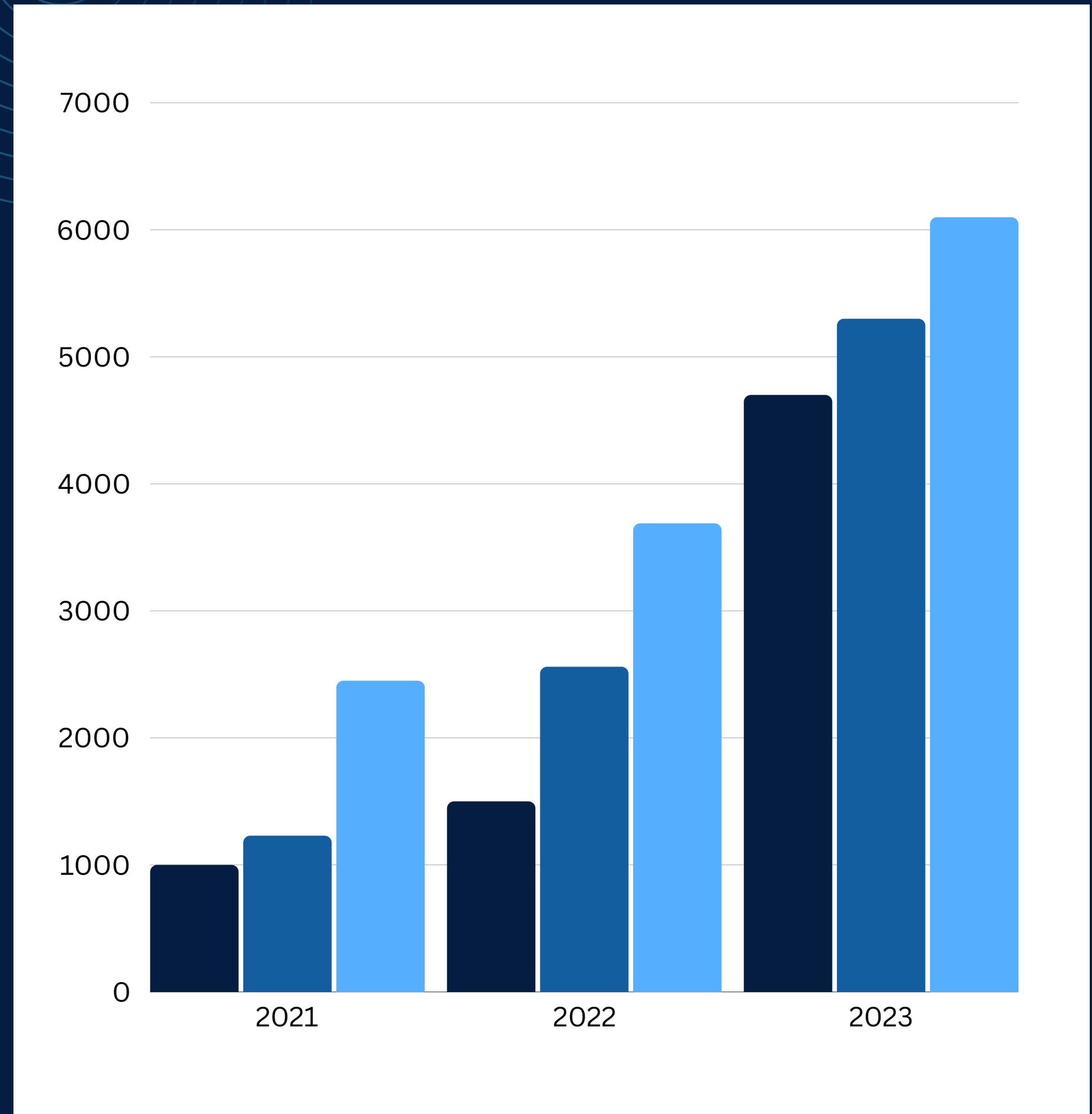
- Savings Accounts: Allow individuals to deposit money and earn interest.
- Checking Accounts: Provide easy access to funds for daily transactions.
- Fixed Deposits: Offer higher interest rates for money locked in for a specific period.

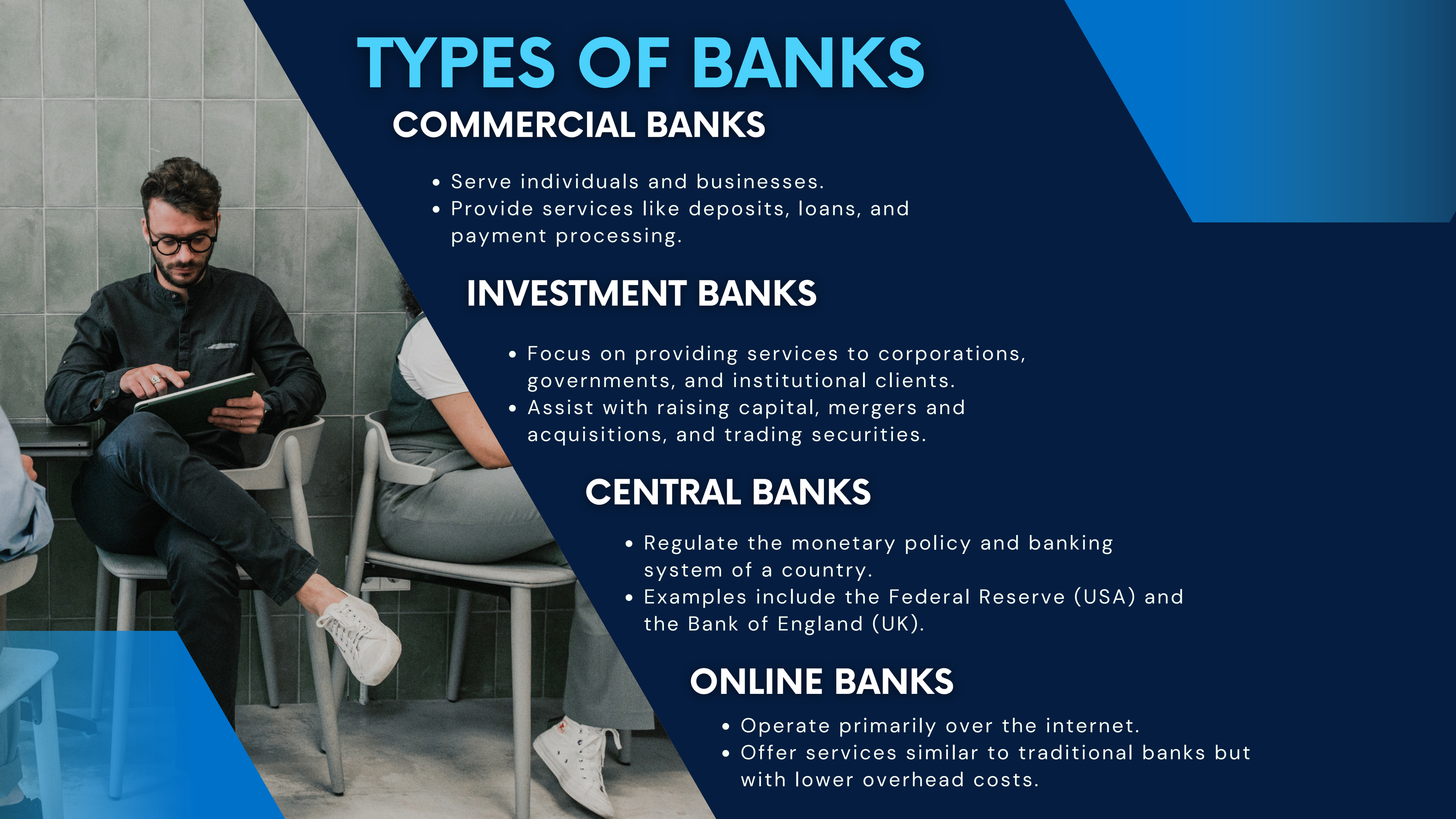
Providing Loans

- Personal Loans: For individual needs such as education or medical expenses.
- Business Loans: To help businesses finance operations or expansion.
- Mortgages: Long-term loans for purchasing real estate.

Other Services

- Wealth Management: Investment advice and portfolio management.
- Foreign Exchange: Currency conversion for international transactions.
- Insurance: Offering various insurance products to customers.





TYPES OF BANKS

COMMERCIAL BANKS

- Serve individuals and businesses.
- Provide services like deposits, loans, and payment processing.

INVESTMENT BANKS

- Focus on providing services to corporations, governments, and institutional clients.
- Assist with raising capital, mergers and acquisitions, and trading securities.

CENTRAL BANKS

- Regulate the monetary policy and banking system of a country.
- Examples include the Federal Reserve (USA) and the Bank of England (UK).

ONLINE BANKS

- Operate primarily over the internet.
- Offer services similar to traditional banks but with lower overhead costs.

HOW BANKS GENERATE REVENUE

Interest Income: The difference between interest earned on loans and interest paid on deposits.

Fees and Charges: Account maintenance fees, transaction fees, and penalty charges.

Investment Income: Earnings from investments in securities and other financial instruments.



INTEREST RATES AND LOANS



IMPORTANCE OF INTEREST RATES

Interest rates influence borrowing and saving behavior.

Lower rates encourage borrowing and spending, while higher rates encourage saving.



IMPACT ON BUSINESSES AND INDIVIDUALS

Businesses: Access to loans can support expansion and operations but increases financial liabilities.

Individuals: Loans enable purchases like homes and cars but require careful financial management to avoid debt burdens.



Financial Regulation

Purpose of Regulation

- Ensure the stability and integrity of the financial system.
- Protect consumers from fraud and abuse.
- Promote competition and prevent monopolies.

Key Regulatory Bodies

- **Financial Conduct Authority (FCA)**: Regulates financial markets and firms in the UK.
- **Federal Deposit Insurance Corporation (FDIC)**: Provides deposit insurance to protect consumers in the USA.
- **Basel Committee on Banking Supervision**: Sets global standards for banking regulation.





@mariaenglishlessons

Conclusion

Banks play a vital role in the economy by facilitating financial transactions, providing credit, and supporting economic growth. Understanding how banks operate and the services they offer is essential for individuals and businesses to make informed financial decisions.





DISCUSSION QUESTIONS

What are the main differences between commercial and investment banks?

How do changes in interest rates affect consumer behavior and business investment?

Why is regulation important in the banking industry?



ACTIVITIES

Case Study Analysis: Examine a real-world example of how a bank supports a local business or community.

Role-Playing Exercise: Simulate a loan approval process to understand the factors banks consider when lending money.

Research Project: Investigate the impact of a central bank's policy on the national economy.
