FINOVA TASK PHASE 2

“Basics of Banking”

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- Learnt about the operations of banks and how they provide services like IRA (individual retirement account), CDs (certificate of deposit) which in india is FD (fixed deposit), personal loans etc.

- Got to know that banks use the deposited money by consumers to give out loans and then earn back by the interest provided on those loans.

- Learnt about the 3-6-3 rule which used to occur earlier in banking before the economic crash which stated that banks would give 3% interest to the depositors and then give 6% interest on loans to earn back money and be done with the day by 3pm. After getting to know the downside of this, government now has stricter regulation system in place.

- Learnt about checking account (current account), savings account, loan services.

- Learnt more in depth about different types of banks such as retail bank, commercial bank, investment bank, central bank.

- Got to know more in depth about commercial banks and how they provide investment portfolio services. And provide mortgages, auto loans etc.

- Learnt about Three main forces driving the economy:
  - Productivity growth
  - Short term debt cycle

    - Long term debt cycle

- **Central Banks Manage the Economy:**

  Use interest rates and money printing to stabilize cycles.

- **Productivity Growth is Key for Long-Term Wealth:**
  Unlike debt cycles, productivity leads to sustainable economic improvement.

- Learnt about UBI (universal basic income)
    - Reduces poverty
    - Encourages entrepreneurship

- Its concerns:
    - Cost
    - Inflation

- From the RBI video I learnt how it regulates India's financial system:
    - By Monetary Policy implementation
    - Issuing Currency
    - Ensuring stability
    - FOREX management
    - It regulates foreign trade and exchange under foreign exchange management act
    - Controls the flow of money and manages debt for central and state governments.

A] Types of banks

1] Retail bank

→ For normal customers offers the usual services

2] Commercial/Corporate Bank

•) for businesses

•) offers services like:-

→ cash management
→ credit services
→ real estate services
→ trade finance

3] Investment banks

•) provides services with financial transaction and assisting with mergers

⇒ Customers :

•) large buisnesses
•) pension funds
•) hedge funds

4] Central Bank

→ Nations money supply & policies

→ Set reserve requirements

How much min money a bank should have in vault/federal reserve bank.

#] Commercial Bank

→ Provide banking & financial products to customers & accept deposits.

→ ~~Make deposits~~ Make money from the interests on loans.

Services:

•) Loans & mortgages
•) Lines of credit
•) CDs / FD
•) Retirement account
•) Investment portfolio services

Tut/phase 2

→ Banks are licensed to accept checkings & savings deposits and make loans.

→ provide services such as IRA (individual retirement account), CD's (certificates of deposit), personal loans etc.

* Bank's use the deposited cash to make loans and collect interest on them.

6-3 rule

* Checkings Acc / current Acc

•) Used by personals / businesses to pay bills and make cash withdrawals.

•) Almost no interest

•) monthly fees

•) Usually no limit on minimum balance

* Savings account

•) pays interest depending upon how long you want to keep the money in account.

•) little interest

If more interest is required we can open a CD/FD, which can give interest periodically ranging from 7 days to 5 yrs.

* Loan Services

•) Customer $\xrightarrow[\text{small interest}]{\text{deposit}}$ Bank $\xrightarrow{\text{loan at higher interest}}$ other customers needing loans

•) End goal of loans :-

→ to give profit to their shareholders (owners)

eg) 1% interest on S.A } 5% profit
6% interest on loans } for owners

March

⇒ Barter → Currency

⇒ as economies became complex, money was standardized into currencies

·) this reduced transaction costs by making it easier to compare.

How is money used?

⇒ Money as a Unit of Account

·) To check the increase rate of products over the years.

·) To keep in check profit & loss

⇒ Money as store of value

·) Money keeps itself valuable the more we use it.

Types of Money

1) Commodity money :-

⇒ objects which already have value

eg Gold, Silver etc.

⇒ Holds power regardless of gov. backing

⇒ limited supply.

2) Fiat Money :-

⇒ Current money (paper tokens which claim to have value like commodity money)

⇒ Stable as its based on economic strength.

3) Money substitutes :-

⇒ checks.

·) Coin / paper money → bank → written document (cheque)

⇒ Crypto currency

·) Same shit but instead of banks it uses block chain.

War influenced expansion of finance domain

2) Corporate finance

→ Startups can recive capital from venture capitalists in exchange for equity.

→ A company can issue shares on stock exchange if it thrives. Such IPO's (initial public offering) bring great influx of cash.

→ Business's might purchase:

- dividend - paying stocks
- blue - chip bonds
- intrst - bearing bank certificates of deposit (CD)

to boost revenue

4) Types of behavioral finance :

1) Mental accounting :

→ ppl keep separate "money jars" for different investments

2) Herd mentality

→ ppl mimik how the majority behaves.

3) Anchoring :

→ when ppl anchor their spending thought on a logic which can be illogical eg high price of engagement ring

4) overconfidence

Finance Vs Economics

- Economics is the study of finance and financial laws on a broader term.
  - broader → country, region, market

- Accounting is also a type of study of finance which deals w/ cash flow & expenditure.

3] Personal finance

-) house hold finances:-

- saving's
- budgeting
- expenditure
- investment
- insurance
- mortgages
- retirement planning.

4] Behavioral finance

⇒ how psychology influences financial decisions

Terms

-) Asset: something of value

-) Balance sheet: A document which shows a companies asset's & liabilities.

Net worth = Liabilities − Asset

-) Cash flow: Movement of money in a business.

-) Compound Intrest:

$$A = P\left(1 + \frac{r}{n}\right)^{nt}$$

-) Simple Intrest:

$$A = P + \frac{P r T}{100}$$

-) Equity:

⇒ ownership

⇒ stocks are called equity as each share represents a portion of ownership in the entity.

-) Liability:

-) Liquidity:

⇒ refers to how easy an asset can be converted to cash.

eg] Real estate is not a very liquid investment as it can take months to sell.

Finova

Task phase 1

·) Finance : term addressing management, creation & study of money & investments

1) Public finance
2) Corporate finance
3) Personal finance
* 4) behavioral finance

1| Public finance :

·) activities of gov. :-

·) Taxation
·) Budgeting
·) focusses on how gov allocates resources

2| Corporate finance :

·) financial operations of companies :-

·) source funding
·) capital structuring
* ·) making decisions which enhance share holder value