

Week 1: Introduction to Finance and Money.

● What's “Finance”?

Finance is an extended term encompassing managing and investing “money” to enable monetary functions. Individuals, companies, groups, and governments all engage in finance when they put their *money to work*.

Finance encompasses lending and borrowing, saving, investing, and providing funding for new projects– monetary functions, i.e., any activity that involves money as a direct tool to structure and regulate an operation.

There are different types of finance:

- Public Finance.
- Private Finance.
- Corpo Finance.

These are the broadly categorised classes of finance as money is handled differently for different purposes, involving consideration of various other types of parameters to model a financial system of its own T&C, policies, etc., and its lawfulness. People engage in finance when they manage money to use it more effectively or increase it. Finance is an essential aspect of life as it's the study of money, its nature, and how to multiply and micro-manage funds to set your backbone right wisely, that is, Finance. This boils down to the purpose of Finance, irrespective of its types and additional considerations. Finance, as a subject, also speaks of the behavioural and social aspects of Finance, which is highly important because it enables us to see the view of society's impression and face of money, how it severs down a lot of

problems, helps in creating a change, cultivates a thrive to improve and a lot more to speak of, making ends meet.

Key Financial Terms:

- ***Asset:*** An asset is anything that holds value and can be utilized for immediate survival, effective management, or long-term planning. It may be tangible (like money, land, or equipment) or intangible (like intellectual property or reputation), as long as it contributes to sustaining or improving future outcomes.
- ***Balance Sheet:*** It's a document that contains information about a company's assets and liabilities. If we deduct the liabilities from the assets we get the '*net worth of the company*'.
- ***Cash Flow:*** It's the in-and-out movement of money of a company or a household.
- ***Equity:*** Equity means ownership. Stocks are called equities in terms of ownership because each share represents a portion of ownership in the underlying corporation or entity.
- ***Liability:*** A financial obligation means one is responsible to oblige and complete the financial transaction.
- ***Liquidity:*** refers to how easily an asset can be converted into cash-form. There are some assets that are highly liquid and some are pretty low-liquid assets implying they are hard to be sold. An example of an asset that's pretty low-liquid is Real Estate. Stocks are highly liquid when the company is doing well in terms of satisfying a shareholder/stakeholder similarly, it's not liquid if the stock price dropped down low making it less liquid as the buy is low and exit-selling is high.
- ***Profit or Profit Margin***— it refers to amount of extra money that's made by selling a product above its production cost.

- ***Public finance***— includes tax systems, government expenditures, budget procedures, stabilization policies and instruments, debt issues, and other governmental concerns.
- The federal government plays a critical role in keeping markets functioning—making sure resources are allocated efficiently, income is distributed fairly, and the economy stays on stable ground. How does it pay for all that? Mostly through taxes. That’s the backbone of public finance—income taxes, corporate taxes, payroll taxes, you name it.
- But taxes aren’t the whole story. The government also borrows—just like any business might. It taps into banks, insurance companies, even foreign governments. It also earns dividends from companies it owns or holds stakes in. It’s not just collecting—it’s investing too.
- Then there’s the state and local side. They get federal grants to fund their own programs, but they also have their own revenue streams: fees at ports and airports, fines when people break the rules, and licenses for things like driving or operating a business. And let’s not forget government bonds—those are essentially IOUs to raise capital from investors.
- At the end of the day, public finance is a balancing act—collect, borrow, invest, and spend—so the entire system doesn’t tip too far in any direction
- ***Corporate finance***— involves managing assets, liabilities, revenues, and debts for businesses.
- When it comes to raising money, businesses have a toolkit—and smart companies know how to use every tool in it. Whether it’s tapping equity markets, taking on debt, or working with investors, the goal is the same: fuel growth, stay competitive, and boost profitability.

- A company might walk into a bank and secure a loan or set up a revolving line of credit—nothing fancy, just solid financing to keep operations smooth or fund expansion. Managing debt wisely is a sign of a well-run company. It's not about avoiding debt—it's about using it strategically.
- Startups, on the other hand, usually don't have revenue or collateral. So they turn to angel investors or venture capitalists who back them in exchange for equity. If they scale successfully, they might go public—an IPO isn't just a milestone, it's a massive cash injection. Take **Bausch & Lomb**—they raised \$630 million when they went public in 2022. That's real capital to reinvest.
- Mature firms don't stop there. They can issue more stock, sell corporate bonds, or even buy other companies. Look at **HomeLight**—raised \$115 million using a smart mix of equity and debt, then used it to acquire a lending startup. That's how you grow strategically.
- Even on the investment side, companies put their money to work—buying dividend stocks, blue-chip bonds, or CDs. It's all about returns, risk, and long-term value.
- Bottom line? Corporate finance is about knowing when to raise, where to raise, and how to put capital to work. The best firms do it with discipline, vision, and execution.

Personal finance defines all financial decisions and activities of an individual or household, including budgeting, insurance, mortgage planning, savings, and retirement planning—IRAs and 401ks.

Social finance is where purpose meets profit. It's about investing in organizations—like nonprofits, cooperatives, or small businesses—that aim to make a positive impact while generating returns.

This includes microloans to entrepreneurs in developing regions and equity or debt funding for social enterprises. You're not just backing a business—you're backing a mission.

Then there are **social impact bonds**—deals where investors only get paid if certain social outcomes are achieved. Think of it as performance-based investing for the public good.

It's finance with a conscience—and real accountability.

● What's "Money"?

Money is the lifeblood of any economy. It's the system we use to put a value on stuff—goods, services, you name it—so people can trade without the hassle of bartering. Imagine trying to swap a cow for a pair of shoes or a stack of lumber for a haircut. Bartering's a mess; it's clunky, and you're always arguing over who's getting the better deal. Money fixes that. It slashes the time and headache of transactions, letting buyers and sellers get on with their lives.

Back in the day, money started as commodities—things like gold, silver, or even shells. Because they had qualities that made them work: they were durable, easy to carry, and people agreed they were worth something. Fast forward to today, and money's evolved. You've got government-backed cash—fiat money, like the dollars in your wallet. Then there's stuff like bank deposits, checks, or what we call fiduciary media. And yeah, let's not forget the new kid on the block: cryptocurrencies, those digital coins buzzing around the internet.

● How Money Works: The Real Deal

Money is the fuel that keeps the economy moving. It's a liquid asset—think cash, bank balances, or even digital coins—that makes trading goods and services a breeze. It's the go-between that lets you buy a burger without hauling a sack of potatoes to the counter. Money's got three big jobs: it's a *medium of exchange* so people can trade without bartering; it's a *unit of account* to slap a clear price tag on everything; and it's a *store of value*, meaning you can save it and it'll still be worth something later, assuming inflation doesn't go nuts.

● Why Money Beats Bartering

Before money, people were stuck bartering—swapping what they had for what they wanted. Sounds simple, right? Wrong. Bartering only works if both sides want what the other's offering. You've got apples, but the baker wants fish? Tough luck. This “double coincidence of wants” made trading a slog. Money fixes that by being the middleman everyone accepts. You sell your apples for cash, then use that cash to buy bread, no haggling required. It's a game-changer that cuts the headache and keeps things moving.

● Where Money Came From

Way back, money wasn't coins or bills—it was stuff people valued, like grain, cattle, or cocoa beans. Why? Because these things were in demand and easy to trade. Cowrie shells, tobacco, even farm tools doubled as cash in some places. They worked because traders knew they could use or swap them later. But carrying around cows or bags of beans? Not exactly convenient. Over time, societies shifted to metals like gold and silver—portable, divisible, and tough to fake. Eventually, paper money and coins took over, backed by governments or gold stashes, making trade even smoother.

● What Makes Money Tick

For something to count as money, it's gotta have a few key traits. It needs to be *accepted*—if nobody takes your cash, it's just paper. It's gotta be *portable*, so you're not dragging a vault to the store. *Durability* matters—money can't fall apart after a week. It should be *divisible* for small purchases, like splitting a dollar for a coffee. *Fungibility* means one unit's the same as another—no one's picking through your dollars like they're collectibles. And *scarcity*? Critical. If money's too easy to make, it's worthless—think Weimar Germany or Zimbabwe.

● Money Today

These days, money's mostly *fiat money*—think dollars, euros, yen. It's not backed by gold, just the government's promise and people's trust. You've also got *commercial bank money*—the digital bucks in your checking account or credit line, created when banks lend. Then there's *money substitutes* like debit cards or Venmo, which move money without physical cash. And don't sleep on *cryptocurrencies*—Bitcoin, Ethereum, you name it. They're digital, decentralized, and stirring up the system, even if they're volatile and regulators are sweating over them.

● Measuring the Money Supply

Economists slice money into categories to track it. *M0* is the physical stuff—coins and bills. *M1* adds checking accounts and other “spend-now” funds. *M2* includes savings accounts and short-term investments—less liquid but still money. Some places track *M3*, which ropes in big institutional accounts. The Federal Reserve watches these numbers like a hawk. Too much money sloshing around? Inflation spikes. Too little? The economy stalls. It's a balancing act.

● Why It All Matters

Money's more than just cash—it's the system that lets us trade, save, and build economies bigger than a village market. Without it, we're back to bartering, and trust me, nobody wants that. From cattle to crypto, money's evolved to keep up with us, and it's still the engine that powers the world. Just don't expect it to solve everything—money's a tool, not a magic wand.

Money: What It's Gotta Be and How It Works

Money's the engine of the economy, plain and simple. It's what lets you buy a car, pay your rent, or grab a coffee without trading chickens or arguing over who's got the better deal. But for money to do its job, it's gotta have the right traits—fungible, durable, portable, recognizable, and stable. These aren't just nice-to-haves; they're what make money slick and efficient, cutting down the hassle of trading. Let me break it down, and then I'll walk you through how money's used and where it comes from.

● The Must-Have Properties of Money

Money's gotta be built for the real world. Here's what it needs to work:

- **Fungible:** Every dollar's gotta be the same as the next. If you've got a \$20 bill, it's worth \$20, period—no one's sniffing it to check if it's “special.” Same with coins or gold bars; they need standard weight and purity. If you're stuck evaluating every coin like it's a collectible, you're wasting time and jacking up costs. Fungibility keeps things fair and fast.
- **Durable:** Money's gotta last. You can't have it crumbling in your wallet or spoiling like fruit. Paper bills, coins, even digital balances—they're built to stick around for tons of trades. Try using something perishable as money, and it's useless by next week. Durability's about making sure money's ready for the long haul.

- **Portable:** You need to carry money without a forklift. It's gotta be light, divisible, and easy to move, whether you're buying gum or shipping billions across borders. Heavy, clunky stuff like a barrel of oil? Good luck. Portability means you can take it anywhere, anytime, without breaking a sweat.
- **Recognizable:** Money's gotta scream "I'm legit" the second you see it. Nobody should squint at a bill wondering if it's real or how much it's worth. If you're stuck verifying every coin or debating quantities, you're burning time and money. Clear, trusted money—think crisp dollars or verified digital transfers—keeps deals moving.
- **Stable:** The supply of money can't swing like a pendulum. If there's too much cash flooding the system, it's worth less—hello, inflation. Too little, and it's scarcity city, driving up value and screwing up trade. A stable supply keeps money's value steady, so you're not gambling on what it'll be worth tomorrow.

These traits aren't academic—they're why money beats bartering. They slash the time, cost, and headache of every deal, making the economy hum.

● How Money Gets Used

Money's core job is being the go-between for trading value—buying, selling, you name it. But it's not a one-trick pony. Here's how it plays out:

- **Medium of Exchange:** This is money's bread and butter. It's what you hand over for a burger or a haircut, no bartering required. By being something everyone accepts, money kills the old "I'll trade you a goat for shoes" problem. It's the universal middleman.
- **Unit of Account:** Money's a yardstick for value. It lets you price a car at \$30,000, a coffee at \$5, and compare everything in between. It tracks profits, losses, budgets, even a company's total worth. Without money as a standard measure, you're guessing what anything's worth—good luck running a business like that.

- **Store of Value:** Money's gotta hold its worth for the future. You sell your old couch for \$200 today, that cash better buy you something equivalent tomorrow. This future-focused power lets you save, invest, or trade across time without the value tanking. It's why you can sock away cash for a rainy day.
- **Standard of Deferred Payment:** Money makes debts and loans possible. You borrow \$10,000 now, agree to pay back \$11,000 later—money's stability and acceptance make that deal work. It's how credit cards, mortgages, and business loans function, stretching value across time.

● Where Money Comes From

Money didn't just fall from the sky—it evolved. Here's the rundown on its types:

- **Market-Determined Money:** Back when people bartered, some goods stood out—gold, silver, even cowrie shells—because they nailed those five properties. They were easy to trade, widely wanted, and held value. Over time, folks started wanting these things just for trading, not for use. Gold and silver became kings because they were prized everywhere. Even today, in places without cash, people use stuff like cigarettes or noodles as makeshift money. Markets figure out what works.
- **Government-Issued Currency:** When a type of money gets popular, governments step in. They mint standard coins, print bills, and call it *legal tender*—meaning courts and tax collectors have to accept it. This cuts transaction costs even more. Governments also cash in on *seigniorage*—the profit from printing money. Print a \$100 bill for \$10, and that's \$90 in the bank. But lean too hard on that trick, and you risk tanking the currency's value. Just look at history's hyperinflation disasters.

- **Other Forms:** Today, money's not just cash. You've got *fiat money*—dollars, euros, backed by government trust, not gold. *Commercial bank money* is the digital cash in your account, created when banks lend. *Money substitutes* like debit cards or apps move money without physical bills. And then there's *crypto*—Bitcoin, Ethereum—digital, decentralized, and a headache for regulators, but still a growing player.

● **Why It Matters**

Money's not just coins or numbers on a screen—it's the system that makes trade, saving, and planning possible. Without those key properties—fungible, durable, portable, recognizable, stable—it falls apart, and we're back to bartering goats. From gold nuggets to government bills to crypto wallets, money's evolved to keep the world spinning. It's not perfect, but it's the best tool we've got to keep the economy from grinding to a halt.

● **Economics: The Basics That Run Everything**

- **Supply and demand**—it's the pulse of the whole damn system. Picture this: Springsteen drops a surprise show. Tickets are scarce, demand's through the roof—prices go nuts. Then resellers dump extras, supply floods in, and prices chill. That's it. Gas, houses, your overpriced coffee—it's all the same game.

● **Banking: Money's Engine Room**

- Banks are the backbone—taking your cash, lending it out, keeping the economy humming. Works great until they get dumb. Remember 2008? They handed out loans like candy, and when the sugar high crashed, we all paid for it. Point is, banks are critical, but they're not saints. Watch them

Investing: Play Smart or Lose Big

- Investing isn't Vegas—if you're smart, it's not a coin toss. Spread your chips:
 - **Stocks:** Wild rides, big wins, big flops.
 - **Bonds:** Boring but steady—don't expect fireworks.
 - **Real estate:** Solid until the bubble pops.
- Mix it up. One tanks, you're not toast. Simple.

Personal Finance: Don't Be a Moron

- Rule one: Spend less than you make, or you're done. Budgeting's a drag, but it's your lifeline. Know your inflows, kill the stupid expenses, and stash some cash. Debt? It's a chainsaw—useful if you don't cut your leg off. Respect it.

Macroeconomics: The Giant Machine

- This is the big leagues—how countries keep score:
 - **GDP:** Economy's growing? Jobs and money flow. Shrinking? Pain.
 - **Inflation:** Your buck buys less every year. Silent killer.
 - **Unemployment:** No jobs, no spending, everyone's screwed.
- Politicians and central banks pull levers, but half the time they're guessing. It's messy.

Fintech: The Future's Here

- Old-school finance is getting a tech haircut. Apps let you trade for peanuts, blockchain's flipping the script on cash, and AI's outsmarting Wall Street suits. It's a gold rush, but it's chaos too. Jump in, just don't be the sucker.

