

EXAM QUESTIONS 212

1. Give examples of some **banking products and services**.

- **Banking products & Services:**

- Accounts → current, savings (deposit)
- Loans, Mortgage
- Investments
- Insurance
- Internet banking, payments
- Credit or debit card
- Direct debit, regular payment, standing order
- Check credit balance, get account statement



2. Explain the meaning of the following terms – **overdraft, standing order, direct debit**. Which of them do you use and in what situations?

- **Overdraft**

- When you withdraw more money than you have on your account so your bank lends you the amount/ money (*kontokorent*)
- I have never used this facility and I do not even want to because it only gets you in debt.

- **Standing order**

- Order to your bank to pay particular amount of money on regular basis to someone (*trvalý příkaz*)
- + I use that to send money to my boyfriend's mom for food on regular basis and I get pocket money from my parents through this facility

- **Direct debit**

- Order to a bank to send someone money from your account on a particular day (*inkasní platba*)

- I haven't used that yet

3. What are the advantages and disadvantages of **online banking**? What is **fractional reserve banking** and in which situations might it cause **problems** for banks?

• **Pros and Cons of Online Banking**

Advantages +	Disadvantages -
An online account is simple to open and easy to operate.	Understanding the usage of internet banking might be difficult at the first.
It's convenient, because you can easily pay your bills and transfer your funds between accounts from nearly anywhere.	You cannot have access to online banking if you don't have an internet connection.
You do not have to stand in a queue to pay off your bills. Also you do not have to keep receipts of all of your bills.	Security of transactions is a big issue. Your account information might get hacked by unauthorized people over the internet.
It is available all the time	Password security is a must
It is fast and efficient. Funds get transferred from one account to the other very fast.	Your banking information may be spread out on several devices making it more of a risk.
You can keep an eye on your transactions and account balance all the time.	If the bank's server is down, then you cannot access your accounts.

• **Fractional reserve banking**



- A banking system in which only a fraction of bank deposits is backed up by actual cash-on-hand and are available for withdrawal
- It is done to expand the economy by freeing up capital that can be loaned out to other parties
- Most countries operate under this type of system
- **Possible problems:**
 - The fact that reserves are a fraction of total liabilities means that problems can arise when a large number of depositors suddenly ask for their money back and banks are unable to get their hands on enough cash to meet demand

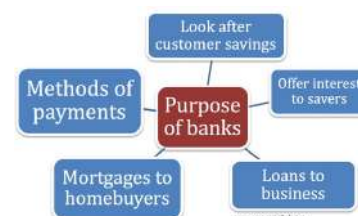
4. Give examples of different types of **financial institutions** and explain their **role**.
Why are banks so **important** for any economy?

- **Financial institutions:**

COMMERCIAL / RETAIL BANKS	→ individuals, small businesses → receive and hold customers' deposits, provide loans → current account, savings account
PRIVATE BANKS	→ wealthy people, high net worth individuals → various kinds of personalised financial and banking services
INVESTMENT BANKS	→ large companies → financial advisory services, issuing stocks /shares, bonds, organising mergers/takeovers
INSURANCE COMPANIES	→ providing compensation for losses, damages, injuries
BUILDING SOCIETIES	→ receiving deposits from customers → lending mortgages to buy houses/flats
CENTRAL BANKS	→ Supervising the banking system → Holding part of commercial banks' reserves → Fixing the minimum interest rate → Issuing coins and banknotes → Controlling the money supply in the economy
MICROFINANCE BANKS	→ distributing very small loans to poor people in developing countries in order to help them set up their simple businesses → it uses social collateral (<i>jistina</i>) – borrowers create a group and within it they help each other to repay the loan

Importance of banks for the economy:

- *Their financial services help to make the overall economy more efficient*
- *The banking system can create money → help the growth process*
- *Banks arrange for the sale of shares and debentures*
- *The banking system facilitates internal and international trade → large part of trade is done via internet*



5. What are **bonds**? What **types** of bonds do you know? What are the **advantages and disadvantages** of bonds compared to shares?

- **BONDS** = Debt investment for a defined period of time → official documents issued by company or government to show that you have lent them money
 - **Types of bonds**
 - High-yield – very risky with high interest rates
 - Investment grade – low risk and smaller interest rates
- **Advantages of bonds and disadvantages of shares**

Advantages + BONDS	Disadvantages - SHARES
Bonds are usually safer	Shares are riskier
Bonds are usually very liquid	Shares offer part-ownership of the company
less day-to-day volatility (instability)	Shares change more, are unstable
interest payments are sometimes higher than the general level of dividend payments	Dividend payments aren't assured
Must be paid back after maturity	With shares you can gain more money

6. Explain the basics of **stocks and shares**. What does '**to float a company**' mean? What does it mean when an investment bank '**underwrites**' a stock issue?

- **Basics of STOCK & SHARES**
 - = Certificates representing part ownership of a company
 - **Stock** = is a general term used to describe the ownership certificates of any company
 - **Shares** = refers to the ownership certificates of a particular company

Stocks	vs.	Bonds
		
An equity instrument carrying ownership interest.	Meaning	A debt instrument with a promise to pay back the money with interest.
Dividend	Return	Interest
No	Return Guarantee	Yes
Voting rights in the company.	Additional Benefits	Preferential treatment when bond matures.

- **To float a company** = going public = Initial public offering (IPO)
 - Selling stocks for the first time
- **Underwrite** a stock issue = part of floating a company
 - Investment banks raise investment capital from investors (on behalf of companies / government)
 - The bank guarantees to buy the stocks if there are no other buyers

7. What are the main **duties** and responsibilities of the **government**? Do you think any of them could be **left to the private sector**?

- **Government duties and responsibilities**

- Protecting people
 - I don't think it would be a good idea to leave this to the private sector
 - This would only mean criminals could pay companies to sweep their crime under the carpet
- Enforcing law
 - Law enforcers should be fair and candid
 - I don't think this could be managed by the private sector
- Taking care of monuments
 - I think this one could be left to the private sector but still the government would have to pay these companies
- Securing unemployed people
 - Private companies can employ unemployed people but never give them compensation if they are unemployed
- Developing the country

8. What are the **economic tools** used by the government to **influence the money supply** in the economy?

- **Government economic tools to influence money supply**

- Tax revenue
 - The biggest income for public budget
- Government spending
 - It can affect economic cycle
- Redistribution of income
 - Legal framework = whole legal system
 - Public goods = police, army, schools...
 - Externalities = usually negative side-effects of all activities
 - Transfer payments = nothing is expected in return
 - Unemployment benefits (actively seeking for a job)
 - Maternity pay (on maternity leave)
 - Retirement pension

9. Which different **taxes** do you know? Explain **how they are levied and redistributed** by the government.

- **Types of taxes**

- » **Direct taxes**

- = paid directly from income earned or on the value of assets owned

- » **Indirect taxes**

- = levied on consumption and paid when purchasing goods and services

- **Progressive taxes**

- = levies higher tax rate on high income earners

- **Regressive taxes**

- = levies lower tax rate on higher income earners

- **Flat taxes**

- = all taxpayers pay the same proportion of their income in taxes

- **Examples of taxes**

- **Excise tax** (*spotřební daň*)

- **Value added tax (VAT)** (*daň z přidané hodnoty*)

- **Customs duty** (*Clo*)

- **Capital earnings / gains tax**

- **Corporate tax**

- **Income tax**



10. What are **transfer payments**? Give some examples.

- **Transfer payments**

- = The government income is redistributed

- = Government redistributes them to citizens in need and expects nothing in return

- Unemployment benefits (actively seeking for a job)

- Maternity pay (on maternity leave)

- Retirement pension

11. What is the difference between **monetary and fiscal policies**? What is the difference between **contractionary and expansionary policies**?

- **Fiscal vs. Monetary policy**

FISCAL policy	MONETARY policy
Government	Central bank
Spend or redistribute tax revenue	Changes interest rates
Changes in government spending / tax rates	
EXPANSIONARY measures (deflation / recession)	
Decrease tax rates	Increase in money supply
Increase money expenditure	Reduction in interest rates
CONTRACTIONARY measures (inflation)	
Increase tax rates	Reduction in money supply
Decrease money expenditure	Increase in interest rates

12. What is the main reason for **international trade**? Explain the concept of **comparative advantage**. Explain the difference between **visible and invisible trade**. What is a **trade surplus**?

- **Main reason for international trade**
 - No country is self-sufficient in the production of all the goods and services its inhabitants consume
 - Some countries can produce some goods more cheaply than others
 - Countries specialise in the production of good where they have the greatest efficiency in comparison with other countries → both countries benefit from trading with each other
- **Comparative advantage** = the ability to produce something more efficiently (at a lower opportunity cost) than somebody else
- » **Visible goods** = Trading of goods that can be touched and weighted (food...)
- » **Invisible goods** = Trading of services – banking, tourism, insurance, education
- **Trade surplus** = an economic measure of a positive balance of trade, where a country's exports exceed its imports.

13. Give some arguments which support **free trade** and some which support the idea of **protectionism**. Explain the '**infant industry argument**' and '**vital goods and services argument**'. Are you personally in favour of free trade or protectionism?

- **Free trade vs. Protectionism**

Free trade	Protectionism
= unrestricted purchase and sale of goods and services between countries	= government actions and policies that restrict international trade
+ there is a wider competition	+ it supports domestic producers
+ wider choice of goods / services	+ brings money to local government
+ cheaper and better products from abroad	

» ***I am personally** in favour of free trade because I often buy goods produced in abroad. At this point in my life (as a student) I cannot afford to support local producers. However, at the same time I think it is important to support local economy but only with some goods that our country has comparative advantage on.*

- **Infant industry argument** = it is important to protect new industries that are absolutely incapable in competing with established competitors from abroad
- **Vital goods and services argument** (basic healthcare, clean water and sanitation, freedom from hunger and fear, transport and energy equity)

14. What do you know about the **World Trade Organization (WTO)**? What is its **purpose** and **function**?

- **WTO** = the only international organisation that deals with the global rules of trade between nations

- **Purpose & function**



- ensure that trade flows as smoothly, predictably and freely as possible
- administer WTO trade agreements.
- act as a forum for negotiating trade agreements
- handle trade disputes (between its members)
- support the needs of developing countries
- monitor members' trade policies
- cooperate with other international organisations

15. What are the **restrictions** used in international trade? Explain **how** they are used.

- **Restrictions in international trade:**
 - **Tariffs** = taxes imposed on imported goods and services
 - **Quotas** = the number of goods and services that can be imported or exported during particular time period
 - **Embargoes** = official orders to stop trade with another country
 - Licensing requirements
 - Standards
 - Subsidies

16. Explain the term **globalization**. What are some **positive** and **negative** aspects of globalization? Give some arguments for and against **multinational companies**.

- **Globalization** = a process of interaction and integration amongst the people, companies, and governments of different nations
 - It is driven by international trade and investment and aided by information technology

Positive aspects	Negative aspects
Poor countries can raise their standards of living	Local enterprises might suffer from that (multinational corporations can swallow them)
It connects people from different nationalities	Local cultures may become extinct

- **Multinational companies**

Arguments for	Arguments against
Offer employment to local workers	Ruin local economies
Give access to quality products regardless of location	Discourage cultural and expansion on local level
Create a sense of community crossing international borders	Many profits are taken out of the host country
Promote peace internationally	little interest in the individual (too big)
Give local economies new economic opportunities	Create economic instability by being subject to sudden changes
Promote economic stability	Give political power to outside interests

17. What is **corporate social responsibility** (CSR)? Are there any arguments **against the need or obligation** for all companies to be socially responsible?

- **Corporate social responsibility**

= a form of corporate self-regulation integrated into a business model



= it is the idea that a company should be interested in and willing to help society and the environment as well as be concerned about the products and profits it makes.

- It aims to embrace responsibility for corporate actions and to encourage a

positive impact on the environment and all stakeholders including consumers, employees, investors, communities...

- **Arguments against CSR**

- × Businesses are owned by their shareholders and they should decide
- × The companies that focus most on CSR are not successful businesses in the marketplace
- × It should be the responsibility of the government
- × Companies don't actually care so it is only PR

→ These are some common arguments against CSR but I don't really agree with them

→ Companies should care about the environment at least

→ However, I think any company should choose their path

18. What is the difference between **stakeholders** and **stockholders** (shareholders)? Give some **examples of stakeholders** and examples of how **CSR** is **applied** towards them. Can you give examples of **companies famous for their CSR**?

- **Stakeholder model** = Companies have social and ethical responsibilities to their customers, their staff, business partners, local community, society in general and the natural environment, that are as important as, or more important than their responsibility to provide a financial return to their shareholders
 - Creditors
 - Directors
 - Employees
 - Government (and its agencies)
 - Owners (shareholders)
 - Suppliers
- **Stockholder (shareholder) model** = The objective of business is to make as much money as possible for companies owners, the stockholders or shareholders
- **Companies famous for CSR**
 - Rolex
 - Lego
 - Disney
 - Adidas Group
 - Microsoft
 - Sony
 - Cannon
 - Michelin
 - Netflix
 - Bosch



19. Explain the term **fair trade** and give some examples of **fair trade goods**. What are the main arguments in **favour** and **against** fair trade?

- **Fair trade** = a movement whose goal is to help producers in developing countries to get a fair price for their products so as to reduce poverty, provide for ethical treatment of workers and farmers, and promote environmentally sustainable practices.

- **Fair trade goods**

- Food (organic farms)
- Clothing

→ Labelled and certified fair trade



Arguments in favour	Arguments against
It supports people in developing countries who would otherwise be victims of exploitation	It makes the goods more expensive
It is fair	Companies don't always have to tell the truth about why the price is higher
It reduces poverty	