Mohamed Boudiaf University of M’sila- Algeria

Faculty of Economics, Business, and Management

Department of Finance and Accounting

Dr. Mohamed Diab - Lecturer Professor

mohamed.diab@univ-msila.dz

ENGLISH FOR THE FINANCIAL SECTOR

Course for first year master students in Finance and Accounting

The academic year 2023/2024

INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

* present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.

* develop your comprehension of finance and accounting texts.

* provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 21 Interest rates

A- Interest rates and monetary policy

An interest rate is the cost of borrowing money: the percentage of the amount of a loan paid by the borrower to the lender for the use of the lender's money. A country’s minimum interest rare (the lowest rate that any lender can charge) is usually set by the central bank, as part of monetary policy, designed to keep inflation low. This can be achieved if demand (for goads and services, and the money with which to buy them) is nearly the same as supply. Demand is how much people consume and businesses invest in factories, machinery, creating new jobs, etc. Supply is the creation of goods and services, using, labour — paid work — and capital. When interest rates fall, people borrow more, and spend rather than save, and companies invest more. Consequently, the level of demand rises. When interest rates rise, so that borrowing becomes more expensive, individuals tend to save more and consume less. Companies also invest less, so demand is reduced.

If interest rates are set too low, the demand for goods and services grows faster than the market’s ability to supply them. This causes prices to rise so that inflation occurs. If interest rates are set too high, this lowers borrowing and spending. This brings down inflation, but also reduces output — the amount of goods produced and services performed, and employment — the number of jobs in the country.

B- Different interest rates

The discount rate is the rate that the central bank sets to lend short-term funds to commercial banks. When this rate changes, the commercial banks change their own base rate, the rate they charge their most reliable customers like large corporations. This is the rate from which they calculate all their other deposit and lending rates for savers and borrowers. Banks make their profits trom the difference, known as a margin or spread, between the interest rates they charge borrowers and the rates they pay to depositors. The rate that horrowers pay depends on their creditworthiness, also known as credit standing or credit rating. This is the lender's estimation of a borrower's present and future solvency: their ability to pay debs. The higher the borrower's solvency, the lower the interest rate they pay. Borrowers can usually get a lower interest rate if the loan is guaranteed by securities or other collateral. For example, mortgages for which a house or apartment is collateral are usually cheaper than ordinary bank loans or overdrafts — arrangements to borrow by spending more than is in your bank account. Long-term loans such as mortgages often have floating or variable interest rates that change according to the supply and demand for money.

Leasing or hire purchase (HP) agreements have higher interest rates than bank loans and overdrafts. These are when a consumer makes a series of monthly payments to buy durable goods (e.g. a-car, furniture). Until the goods are paid for, the buyer is only hiring or renting them, and they belong to the lender, The interest rate is high as there is little security for the lender: the goods could easily become damaged.

C- Exercise

Match the words in the box with the definitions below. Look at A and B opposite to help you.

creditworthy	floating rate	invest	labour
spread	output	solvency	interest rate

1 - the cost of borrowing money, expressed as a percentage of the loan
2 - having sufficient cash available when debts have to be paid
3 - paid work that provides goods and services
4 - a borrowing rate that isn't fixed
5 - safe to lend money to
6 - the difference between borrowing and lending rates
7 - the quantity of goods and services produced in an economy
8- to spend money in order to produce income or profits