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 24 Money supply and control

A - Measuring money

Professor John Webb, the banking expert, continues his interview.

What is the money supply?

It's the stock of money and the supply of new money. The currency in circulation—coins and notes that people spend—makes up only a very small part of the money supply. The rest consists of bank deposits.

Are there different ways of measuring it?

Yes. It depends on whether you include time deposits—bank deposits that can only be withdrawn after a certain period of time. The smallest measure is called narrow money; this only includes currency and sight deposits—bank deposits that customers can
withdraw whenever they like. The other measures are of broad money. This includes savings deposits and time deposits, as well as money market funds, certificates of deposit, commercial paper, repurchase agreements, and things like that.

What about spending?

To measure money, you also have to know how often it is spent in a given period. This is money's velocity of circulation—how quickly it moves from one institution or bank account to another. In other words, the quantity of money spent is the money supply times its velocity of circulation.

B - Changing the money supply

The monetary authorities—sometimes the government, but usually the central bank—use monetary policy to try to control the amount of money in circulation and its growth. This is in order to prevent inflation, which is the continuous increase in prices, which reduces the amount of things that people can buy.

- They can change the discount rate at which the central bank lends short-term funds to commercial banks. The lower interest rates are, the more money people and businesses borrow, which increases the money supply.
- They can change commercial banks' reserve-asset ratio. This sets the percentage of deposits a bank has to keep in its reserves (for depositors who wish to withdraw their money), which is generally around 8%. The more a bank has to keep, the less it can lend.
- The central bank can also buy or sell treasury bills in open-market operations with commercial banks. If the banks buy these bonds, they have less money (and so can lend less), and if the central bank buys them back, the commercial banks have more money to lend.

C - Monetarism

Monetarist economists ate those who argue that if you control the money supply, you can control inflation. They believe the average levels of prices and wages depend on the quantity of money in circulation and its velocity of circulation. They think that inflation is caused by too much monetary growth: too much new money being added to the money stock. Other economists disagree. They say the money supply can grow because of increased economic activity: more goods being sold and more services being performed.

D - Exercise

Are the following statements true or false? Find reasons for your answer in A and B.

1 Most money exists on paper, in bank accounts, rather than in nores and coins.
2 Banking customers can withdraw time deposits whenever they like.
3 The amount of money spent is the money supply multiplied by its velocity of circulation.
4 Central banks can try to control the money supply.
5 Commercial banks can choose which percentage of their deposits they keep in their reserves.