

Unit 1 Money

Background Reading Questions

1. Can you give specific examples to illustrate the four functions of money in real life?

- **Medium of exchange:** This function allows us to avoid the inefficiencies of a barter system. A real-life example is using cash or a debit card to buy groceries at a supermarket.
- **Unit of account:** This is the function of money as a standard measure of value. For instance, a coffee shop lists a latte for \$4 and a croissant for \$3. This allows customers to easily compare the value of the two items.
- **Store of value:** To be a store of value, money must be reliably saved and its value must remain stable over time. An example is putting money into a savings account to be used for a large purchase in the future, such as a down payment on a house.
- **Standard of deferred payment:** This function describes money as an accepted way to settle a debt over time. For example, when a person takes out a car loan, the total amount of the debt is denominated in a specific currency (e.g., U.S. dollars), and the loan is paid back in that same currency over a period of several years.

2. According to your knowledge, what factors can impact the value of money?

- **Inflation:** Inflation reduces the value of money, which diminishes its ability to function as a stable store of value.
- **Deflation:** Like inflation, deflation can change the real value of debts that are denominated in money.
- **Debasement and Devaluation:** For sovereign and international debts, the real value can be altered through debasement (reducing the precious metal content of coins) and devaluation (lowering a currency's official value).

3. Do you think that the creation of e-currency has changed the functions of money nowadays?

The creation of e-currency has not fundamentally changed the functions of money, but it has significantly enhanced the “medium of exchange” function. As the text in the “Issues” section highlights, there is a clear “shift into electronic form”, and for many individuals and companies, “the lion’s share of transaction value is in digital form”. This makes transactions faster, more efficient, and possible over long distances via the internet. However, the other functions remain conceptually the same: prices are still quoted in standard currency units (unit of account), and digital funds are still expected to be a reliable store of value.

4. What forms of money have you learned about?

Based on the content throughout this unit, several forms of money have been mentioned:

- Physical forms like precious metals, coins, and paper money (cash).
- Electronic and digital forms, such as e-money, digital currency, Central Bank Digital Currency (CBDC) like the “digital euro”, and crypto-assets like “bitcoin”.

Issues

Fill in the blanks

1. dematerialization of money
2. Interbank settlement systems
3. monetary hierarchy
4. in digital form
5. back-office accounting and clearing procedures

- 6. cash, cheques and credit cards

Discussion Questions

- **How much do you know about e-money? Can you give the definition of e-money?**
E-money, or electronic money, is a dematerialized, electronic form of money. The financial system is already largely dominated by electronic money, with most transactions for central and commercial banks being electronic. For companies and individuals connected to banks via the internet, the majority of transaction value is in digital form.
- **What other terms of e-money have you heard about, such as digital currency, and so on?** Other terms mentioned in the text include:

- Digital currency
- Central bank digital currency (CBDC)
- e-currency
- Digital euro
- Bitcoin
- Crypto-asset

- **Work in groups and talk about the pros and cons of e-money and paper money.** Based on the text:

Pros of E-Money / Cons of Paper Money:

- **Efficiency:** E-money offers “low-cost simplicity”. Experimental systems for digital euro were capable of processing over 40,000 transactions per second.
- **Dominance in Finance:** The current monetary system is already dominated by electronic money, especially for interbank, central bank, and commercial transactions.
- **Environmental Friendliness:** The infrastructure for a potential digital euro was found to be environmentally friendly, with negligible power consumption compared to crypto-assets like bitcoin.

Cons of E-Money / Pros of Paper Money:

- **Consumer Hesitation:** Consumers can be hesitant to adopt new payment systems and are sensitive to issues of convenience and security.
- **Cash is Still Prevalent:** For individuals, physical forms of payment like cash, checks, and credit cards remain predominant. The European Central Bank has stated that a digital euro would complement cash, not replace it.
- **Accessibility:** A key issue for digital currency design is ensuring end-user access even when not connected to the internet, implying a potential disadvantage compared to cash.

- **Hold a debate on this issue: it is a trend for paper money to vanish in the future, and e-money will play a dominant role in the payment system.**

Arguments for this point of view based on the text include:

- The “monetary hierarchy of today is already dominated by electronic money”.
- For many companies and individuals using internet banking, the “lion’s share of transaction value is in digital form”.

- Major central banks, like the European Central Bank, are actively developing their own digital currencies (CBDCs), such as the digital euro, to ensure that citizens and firms have access to central bank money in the digital age.
- Innovations in digital technology are expected to gain “almost entirely new ground is at the consumer or individual level”, which is the primary domain of paper money.

Listening Practice: Passage 1

I. Warm-up Practice

1. **Can you distinguish concepts such as “digital currency” and “central bank digital currency (CBDC)”?** What do they have in common? What is the major difference?

Both are forms of electronic or dematerialized money. The major difference is that a CBDC is issued and backed by a central bank. The text provides the “digital euro” project by the Eurosystem as an example of a CBDC, while it lists “bitcoin” and “crypto-asset” as other forms of digital assets that are not issued by a central bank.

2. **How much do you know about “blockchain”?** If you are an investor, will you invest in bitcoin? Why?

The text identifies blockchain as a technology, listing it as an alternative to the Eurosystem’s TARGET Instant Payment Settlement (TIPS) system that was tested for the digital euro project. The experiments found that the tested architectures for a digital euro used negligible power compared to the high energy consumption of crypto-assets such as bitcoin.

3. **How much do you know about Euro and Eurosystem?** What might be the possible advantages for the Eurozone countries to use the single currency?

The Eurosystem is the monetary authority of the eurozone, and it is headed by the European Central Bank (ECB). The text does not explicitly state the advantages of the single currency, but the goals for the digital euro project suggest the advantages the Eurosystem seeks to maintain: providing a “riskless, accessible, and efficient form of digital central bank money” for citizens and firms in the digital age.

II. Task 1: Multiple Choice

1. **D.** Design and distribution framework has been established.
2. **D.** replacing cash.
3. **C.** It will not bring any change to the EU legislative framework.
4. **A.** The European Central Bank.
5. **C.** No major technical obstacles were identified to any of the assessed design options.

III. Task 2: Fill in the blanks

Finally, the investigation phase will **assess** the possible impact of a digital euro on the market, identifying the design options to ensure **privacy** and avoid **risks** for euro area citizens, intermediaries and the overall economy. It will also define a business model for **supervised** intermediaries within the digital euro ecosystem. A market advisory group will take account of **prospective** users’ and distributors’ views of a digital euro during the investigation phase. Those views will also be discussed by the Euro Retail Payments Board.

IV. Task 3: Retell the passage

On July 14, 2021, the European Central Bank’s Governing Council announced the launch of the investigation phase for a digital euro project. This decision followed nine months of analysis, experimentation, and consultation with citizens and professionals. The goal is to ensure that in the digital era, people continue to have access to the safest form of money—central bank money.

The 24-month investigation phase will address key issues of design and distribution. It will focus on creating a functional design based on users’ needs, which will be explored through focus groups and prototyping. The project will involve cooperation with the European Parliament and other policymakers to assess the need for legislative changes. A primary aim is to assess the possible impact of a digital euro on the market and the broader economy, ensuring it prevents illicit activities without causing financial instability. This phase will benefit from the results of experiments already conducted by the ECB and national central banks, which found no major technical obstacles and confirmed that such an infrastructure could be both highly efficient and environmentally friendly.

V. Task 4: Discussion Topics

1. **What is the role played by money in the society? What functions does money have?**

Money has three main functions according to modern textbooks: a medium of exchange, a unit of account, and a store of value.

- **Medium of exchange:** Money is used to facilitate the buying and selling of goods and services, which avoids the difficulties of a barter system.
- **Unit of account:** Money provides a standard numerical unit to measure the market value of goods and services. To work as a unit of account, money must be divisible, fungible (interchangeable), and verifiably countable.
- **Store of value:** Money must be able to be saved, stored, and retrieved for future use, and its value should remain stable over time.

Older textbooks also list a fourth function, a **standard of deferred payment**, which means it is an accepted way to settle a debt.

2. **How does the form of money change in the digital age? Will the issuance of CBDC affect a country’s monetary policy?**

In the digital age, the form of money is shifting from physical to a “dematerialized electronic form”. For many banks, companies, and individuals, the majority of transactions are now electronic or digital. The issuance of a CBDC could affect a country’s monetary policy. The European Central Bank’s digital euro project explicitly aims to avoid “any undesirable impact on financial stability and monetary policy,” indicating this is a significant risk that must be managed. The investigation phase of the project is designed to address and mitigate these key issues.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

In the first quarter of 2021, the U.S. dollar appreciated against major currencies like the euro, defying the consensus expert prediction that it would weaken. A key reason for the dollar’s unexpected strength is the diverging economic outlooks of the U.S. and Europe. Europe has struggled with its COVID-19 vaccine rollout and faced new economic lockdowns, which has

dampened its growth expectations and weakened the euro. In contrast, the robust U.S. economic performance has raised expectations that the Federal Reserve might tighten its monetary policy sooner than the European Central Bank. This has caused a shift in market dynamics, where the dollar is strengthening due to rising U.S. bond yields rather than just general risk appetite.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** At the start of 2021, the widespread expectation among experts was that the value of the U.S. dollar would decline due to factors like massive government spending, loose monetary policy, and high national debt.
2. **Paraphrasing statement 2:** A fall in the dollar's value was anticipated to be beneficial for the stock market, both in the U.S. and especially in other countries.
3. **Paraphrasing statement 3:** The euro has lost value because the eurozone's economic forecast has worsened due to a rise in COVID-19 cases and renewed business lockdowns across several European nations.
4. **Paraphrasing statement 4:** If there is a major sell-off in global stocks and other risky investments, the U.S. dollar would likely increase in value because it is traditionally seen as a safe asset during times of market turmoil.
5. **Paraphrasing statement 5:** This situation happened because central banks in developed nations had all lowered their key interest rates to the minimum possible level and committed to keeping them there, which resulted in very small differences in interest rate expectations between countries.

III. Task 3: True or False

1. **True.** A weaker dollar was the “consensus call,” but instead, the U.S. currency “has appreciated versus major rivals as the first quarter comes to a close”.
2. **True.** The text states that a “weaker dollar was seen as a boon for U.S. equities,” which implies that a stronger (rising) dollar would have a less positive or negative impact.
3. **False.** The text explicitly mentions “Europe’s struggles with rolling out COVID-19 vaccines” and a “rise in infections and new and extended business lockdowns”.
4. **False.** The text suggests the Fed is set to begin tightening monetary policy “relatively more quickly than the European Central Bank”.
5. **True.** The text states that Capital Economics expects the dollar to strengthen against these currencies because bond yields in Japan and the eurozone “have the least scope to rise,” in part because their economic recoveries could “underwhelm,” implying U.S. bond yields will perform better.

IV. Task 4: Discussion Questions

1. **What impact will the depreciation or appreciation of a country's currency bring to its economy or the economy of its trade partners? Give an example.**

The text provides the example of the U.S. dollar's appreciation in early 2021. The consensus view was that a weaker dollar (depreciation) would have been a “boon for U.S. equities,” international stocks, emerging markets, and commodities. Therefore, the unexpected appreciation of the dollar had negative implications for these assets. The

dollar's strength was also linked to the economic struggles of a trade partner, the eurozone, whose own currency weakened as its economic growth expectations deteriorated.

2. **Talk about Chinese's current economic situation and its monetary policy.**

Students may be asked to search for relevant information and form their points of view.

Unit 2 Finance

Background Reading Questions

1. **Can you give specific examples to illustrate what personal finance deals with?**

According to the text, personal finance deals with the management of an individual's or a family's financial resources. Specific examples of personal financial decisions include:

- Paying for education.
- Financing durable goods such as real estate and cars.
- Buying insurance, such as health and property insurance.
- Investing and saving for retirement.
- Paying for a loan or other debt obligations.

2. **According to your own experience, how does tax policy affect personal financial decisions?**

As the text indicates, tax policy, through "tax subsidies or penalties," directly affects personal financial decisions. For example, a tax subsidy, such as a tax deduction for contributions to a retirement account, encourages individuals to save more for their future. Conversely, a tax penalty, such as a high tax on short-term investment gains, might discourage individuals from making certain types of speculative investments.

3. **According to your knowledge, what types of financial risks exist?**

The "Background Reading" section on financial risk management lists several types of financial risks. The main ones mentioned are **credit risk** and **market risk**. The text also provides a list of other risk types, including **Foreign exchange, Shape, Volatility, Sector, Liquidity, and Inflation risks**.

4. **How much do you know about Basel Accords?**

According to the text, the Basel Accords are a set of international banking regulations. They are "generally adopted by internationally active banks for tracking, reporting and exposing operational, credit and market risks".

Issues

Fill in the blanks

1. reduce the purchasing power of dollars
2. loss in value when converting assets into cash within a short notice
3. a higher liquidity risk
4. Changing interest rates
5. financial standing
6. investing in stocks

Discussion Questions

- **Can you use your own example to illustrate your understanding of inflation risk?**

Inflation risk is the danger that rising prices will reduce the purchasing power of your money over time. For example, the text notes that the cost of a vacation will definitely be higher in 40 years, so waiting to take one means your money will buy you less of that experience. Conversely, for some items like personal computers, inflation risk is less of a concern because technology improves so rapidly that the same amount of money will buy a much better product in the future.

- **Have you ever met with the liquidity risk? How have you coped with it finally?**
Liquidity risk is defined as the potential loss of value you experience when you need to convert an asset into cash very quickly. The document provides an example: a house worth \$1 million is a non-liquid asset because it's difficult to find a buyer at that price within a few days. If you were forced to sell it immediately, you might have to accept a significantly lower price, and that loss of value is the liquidity risk. Assets like stocks and fixed deposits have lower liquidity risk than real estate.
- **Work in groups and talk about the financial risks an ordinary person often encounters.**
The text outlines five main types of financial risks for an ordinary person:
 - **Inflation Risk:** The risk that rising prices for goods and services will decrease the purchasing power of your money over time.
 - **Income Risk:** The risk of losing your job and earned income, particularly if your skills are not outstanding or you are not indispensable to your company.
 - **Liquidity Risk:** The risk of losing value on an asset because you have to sell it and convert it into cash on short notice. Real estate is given as an example of an asset with high liquidity risk.
 - **Interest Rate Risk:** The risk that changes in interest rates will negatively affect you. For example, low interest rates reduce the return on your savings, while high interest rates increase the cost of your debts.
 - **Personal Risk:** The risk related to an individual's personal habits and behaviors that affect their financial standing. Examples include costly habits like gambling and smoking or making poor investment decisions based on emotion rather than logic.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What is microfinance? Who are the target borrowers of microfinance loans?**
Microfinance refers to small-scale lending programs. The target borrowers are low-income households who typically cannot access formal lending systems.
2. **Should microfinance be commercial? What are the potential risks if lending is expanded to unstable borrowers?**
The passage suggests that commercial microfinance is problematic. When lending expands to more unstable borrowers without state protection, there is a risk that these borrowers can become impoverished by expensive debt, especially during times of economic crisis. In some cases, when debt becomes unsustainable, borrowers are forced into exploitative situations like debt bondage to repay their loans.
3. **How does the COVID-19 pandemic affect the livelihood of low-income households? Can microfinance help?**

The pandemic threatened to destroy the livelihoods of billions of informal workers in the global south. The passage argues that microfinance is unlikely to help and could even be a “disaster”. Borrowers who lost their incomes due to the pandemic still had microfinance loans to repay, threatening their livelihood security rather than creating it. This situation risks a second crisis where food insecurity is combined with threats from creditors.

II. Task 1: Multiple Choice

1. **B.** in the 1970s
2. **A.** It has the capacity to make poverty history.
3. **B.** To establish their own businesses.
4. **D.** Not yet known for sure, but most probably they do not work as expected.
5. **C.** Borrowers are impoverished by expensive debt through a period of uncertain employment.

III. Task 2: Fill in the blanks

In Cambodia, for example, microfinance loans are often taken out by labourers in the garment and construction industries, many of whom are **migrants** from rural areas pushed out of agriculture because of flooding and **forced** to take on this low paying work in the cities. These borrowers are in no position to establish their own businesses but use the loans to buy the goods they need during times of scarcity and struggle to repay them with their earnings from wage work. When levels of debt become **unsustainable**, many are forced to seek out debt **bondage**-labour, often compelled, as a means of paying off debt-on brick kilns to repay microfinance loans. Now borrowers with no incomes as a result of the pandemic but with microfinance loans to repay could be at higher risk of entering such **exploitative** work.

IV. Task 3: Retell the passage

Microfinance, a system of small-scale lending to low-income households, was initially celebrated as a way to end poverty. However, research has shown its effects on poverty are actually “small and inconsistent”. In reality, many borrowers use the loans to meet daily expenses for things like food and health, not to start businesses. This becomes dangerous when their income is precarious, leading to unsustainable debt that can force them into exploitative work and debt bondage, a problem that hits women the hardest.

The problem has been worsened by the shift of microfinance from a non-profit approach to a commercial, neoliberal model. This has expanded lending to more unstable borrowers at much higher interest rates than wealthier counterparts pay, leading to incredibly high returns for investors. During the COVID-19 crisis, this model threatens to impoverish borrowers with expensive debt while they have no income. Rather than empowering them, the demands of debt make the “delicate tightrope” walked by low-income households even more precarious.

V. Task 4: Discussion Topics

1. **Talk about the history of microfinance. What do you think of its future?**

Microfinance began as a local policy experiment in the 1970s and gained global attention when Muhammad Yunus won the Nobel Peace Prize for the concept in 2006. Until the late 2000s, it was widely hailed as a solution to global poverty. The passage suggests its future is troubled; its effectiveness has been called into question, and its commercialization has

led to negative consequences for borrowers. In the context of a global crisis like the coronavirus pandemic, the passage argues that microfinance could be a “disaster” for the poor, leading to a second crisis of debt and food insecurity.

2. **Is commercial microfinance inherently incompatible with poverty alleviation? How can the balance be kept between retaining its social orientation and gaining profits?**

The passage strongly suggests that the commercial model of microfinance is incompatible with poverty alleviation. It describes a shift from a non-profit approach with regulated loans to a neoliberal model dominated by commercial banks seeking high returns. This has resulted in borrowers being charged much higher interest rates, lured into unsustainable debt, and impoverished through a period of uncertain employment. The passage implies that a balance could be kept by returning to the principles of the previous non-profit model, which involved regulated interest rates and amounts, and state underwriting to provide protection for borrowers in times of crisis.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The global financial system is deeply interconnected, with banks and investors often only one or two steps away from each other, a reality that became dangerously clear during the 2008 financial crisis. This complex web is held together by financial instruments like derivatives, which link thousands of companies and hedge funds around the world. Regulators are aware of this interconnectedness but do not fully understand its complexity, creating friction as they attempt to implement reforms like the Dodd-Frank Act. Former Federal Reserve Chairman Alan Greenspan criticized these reforms, arguing they were being imposed on a system far more complex than regulators grasp. To address this, there is an urgent need to gather data and research to better understand the markets, a task assigned to the new Office of Financial Research. Without a better understanding, the only logical alternative to prevent another crisis may be to break up large financial firms into smaller, less connected entities.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** The long-held idea from a 1929 short story by Hungarian author Frigyes Karinthy—that any two people can be connected through just a few acquaintances—has been a source of fascination for many years.
2. **Paraphrasing statement 2:** Tensions are rising as regulatory bodies start to mandate specific changes to derivatives and securitization in order to create more separation between the world’s largest financial firms.
3. **Paraphrasing statement 3:** These problems increase the pressure on regulators to compel Wall Street to invest in making its vast amount of data more transparent and available.
4. **Paraphrasing statement 4:** He asserts that there is a crucial “national need” to collect information and conduct research for a better comprehension of the markets, comparing it to the decades-long, serious project of developing hurricane models.
5. **Paraphrasing statement 5:** If a more effective way to monitor the intricate and interconnected financial markets isn’t developed, the only reasonable course of action would be to dismantle large companies into many smaller, isolated pieces.

III. Task 3: True or False

1. **True.** The text states that the “dangerous impact of which did not become clear until the 2008 financial crisis”.
2. **False.** The text states that in many cases, “the *only* buyers of derivatives linked to the default risks of small companies are hedge funds”.
3. **False.** The text explicitly says that although regulators are aware of the connections, “they do not fully understand them”.
4. **False.** The text attributes the belief in a “national need” to John Liechty, not Alan Greenspan.
5. **True.** The text describes the Office of Financial Research as a new agency “charged with identifying systemic risk in the financial sector”.

IV. Task 4: Discussion Questions

1. **What are the benefits and weaknesses that the interconnectedness brings to the world finance? Give your examples.** The passage focuses mainly on the weaknesses.
 - **Weakness:** The primary weakness is systemic risk, where the close connections between financial institutions mean that a problem in one area can quickly spread and threaten the entire system. The 2008 financial crisis is cited as the prime example of this danger. The text gives the example of derivatives like credit default swaps acting as “glue” that connects most companies, banks, and investors in fewer than six steps.
 - **Benefit:** The passage does not explicitly state benefits, but it provides an example of a beneficial function that creates interconnectedness: hedging. The narrator speaks to someone who “hedges corporate loans... using derivatives”. This implies that a benefit of the system is the ability to manage and distribute risk across many entities.
2. **Talk about current world financial situation and try to analyze whether it reflects the so-called interconnectedness.**

Students may be asked to search for relevant information and form their points of view.

Unit 3 Banking

Background Reading Questions

1. **According to the passage, what is banks’ primary role? Talk about your own experiences related to this role.**

According to the passage, a bank’s primary role is “accepting deposits and lending money”. My own experiences reflect this role. For example, I have used a bank for “accepting deposits” by opening a checking account where my salary is deposited. I have also interacted with their “lending money” role when I applied for a car loan, which is a common service provided by a bank’s consumer lending department.

2. **What are the three basic types of banks? Can you differentiate among them?**

The text identifies three basic types of banks: commercial banks, savings and loan associations, and credit unions. They can be differentiated as follows:

- **Commercial Banks:** They are the dominant type of bank and offer a full range of services to individuals, businesses, and governments. They exist in a wide range of sizes, from small community banks to large global banks.
- **Savings and Loan Associations:** Also known as thrift institutions, they were originally established to finance mortgages and still cater primarily to the savings and lending needs of consumers. However, the text notes that the distinctions between them and commercial banks have now largely disappeared.
- **Credit Unions:** These are nonprofit financial institutions formed by people with a “common bond,” such as working for the same company or belonging to the same labor union. Membership, loans, and savings accounts are restricted to those who share this common bond.

3. Can you name some large global commercial banks?

The provided passages mention several large global commercial and investment banks, including:

- Citibank
- Bank of New York
- JPMorgan Chase (JPM)
- Citigroup
- Goldman Sachs

4. Have you seen any changes in the development of banks in the present world? Give your own examples and ideas.

Yes, the text highlights several significant changes in the development of modern banking.

- Some of the traditional distinctions between banks, insurance companies, and securities firms have diminished”.
- Another key development is the rise of **online banking**. The text notes that “online banks which provide financial services entirely over the Internet have entered the market, with some success”. In response, traditional banks have also started offering online services, creating a hybrid model. A real-world example of this is using a mobile banking app from a traditional bank to deposit a check or transfer money, a service that once required visiting a physical branch.

Issues

Fill in the blanks

1. online banking
2. “brick-to-click”
3. brick-and-mortar
4. banking industry
5. fully functional
6. automated teller machines

Discussion Questions

- **How much do you know about online banking? Can you give the definition of online banking?**

Online banking is a service offered by most large and many smaller banks that allows

customers to manage their finances via the internet. It is also known by several other names, including PC banking, home banking, and electronic banking.

- **Have you ever used online banking to manage your finance? Are you used to it? And do you trust online-banking?**

The provided text indicates that a primary challenge for the banking industry has been to design online services that customers can easily learn to use and trust. Banks have spent generations building customer trust and are careful not to risk that reputation on a website that is confusing or insecure. To address this, most large banks now offer “fully secure, fully functional” online banking services.

Students may be asked to share their personal experience.

- **Work in groups and talk about the pros and cons of online banking.**

Pros of Online Banking:

- **Convenience:** The debate topic mentions it is popular because it is “more efficient and time-saving”.
- **Cost:** Most large banks offer fully functional online banking for free or for a small fee.
- **Functionality:** Users can view account balances and history, and often initiate transactions online.
- **Accessibility:** It is becoming as “commonplace as automated teller machines”.

Cons of Online Banking:

- **Security and Trust:** A key challenge for banks is ensuring their online platforms are secure and not confusing or frustrating for customers, in order to maintain trust.
- **Limited Services:** Some smaller banks may offer online banking with limited functionality, where you can view accounts but not perform transactions.
- **Lack of Physical Presence:** “Virtual” banks have no physical branches or tellers, which could be a disadvantage for customers who prefer face-to-face interaction.

- **Hold a debate on this issue: it is increasingly popular for customers to manage their finance via online banking as it is more efficient and time-saving, so some people think that the physical banks will disappear in the future.** Arguments based on the text include:

Arguments FOR the disappearance of physical banks:

- The rise of online banking is a major trend, with services expected to become as commonplace as ATMs.
- A new model of “virtual” banks exists that operates entirely online with “no physical branches or tellers whatsoever,” proving that physical locations are not essential.
- Even traditional “brick-and-mortar” banks are adapting by offering online services, creating a hybrid “brick-to-click” model that signifies a shift away from purely physical banking.

Arguments AGAINST the disappearance of physical banks:

- The text suggests a blend of physical and online banking is currently the norm, noting that formerly “Internet-only banks have opened branches”. This indicates that a physical presence still has value.
- The term “brick-to-click” implies that the “brick” (physical branch) component remains a part of the banking model, even as online services are added.

- Building and maintaining customer trust is a core concern for banks, and having a physical presence may be an important factor in establishing that trust.

Listening Practice: Passage 1

I. Warm-up Practice

1. **When and where did the first banks come into being? How much do you know about the history of the banking industry?**

The passage does not state when the very first banks came into being, but it quotes Alexander Hamilton from 1781, who cited Venice, Genoa, Hamburg, Holland, and England as established examples of bank utility. The passage outlines a history starting in the late 18th century with the founding of the Bank of New York, continuing through the 19th century when banks funded the industrial revolution, the early 20th century when financiers like J.P. Morgan stabilized the markets during the Panic of 1907, the Depression-era separation of commercial and investment banking, and the modern era which saw the introduction of ATMs, credit cards, and junk bonds.

2. **What role do you think banks play in commercial nations? Some people say “banks are at the heart of capitalism”. What is your opinion on this statement?**

The text strongly supports the view that banks are central to capitalism. Alexander Hamilton called them the “happiest engines that ever were invented for advancing trade”. They were essential in funding the corporations of the industrial revolution. The passage concludes by quoting a historian who calls the banking industry the “circulatory system of the economy” and “analogous to the heart,” stating that if the banking system fails, the whole economy is in trouble.

3. **How much do you know about Federal Reserve? What are the roles and responsibilities of Federal Reserve?**

The Federal Reserve is the central bank of the United States. Its primary responsibilities are to regulate the banking industry and implement the nation’s monetary policy by controlling the money supply. It uses its tools—such as buying or selling government securities and setting the interest rate it charges to banks—to promote economic growth while limiting inflation. The Federal Reserve was created by the U.S. Congress after the Panic of 1907, a crisis which private bankers had to resolve themselves.

II. Task 1: Multiple Choice

1. **B.** Because the credit crisis shook the world’s confidence in the banking system.
2. **D.** France.
3. **B.** Taking deposits and making loans.
4. **B.** Citibank.
5. **B.** The banking industry plays a pivotal role in the whole economy.

III. Task 2: Fill in the blanks

Bailing out the banks themselves, as the world’s governments did in the most recent crisis, was **symbolic**, too. Whether one believes they are deadlier than hostile forces or “happy engines” of economic growth, few now **doubt** the financial services industry’s importance to the economy. ‘The banking industry is the **circulatory** system of the economy,’ Mr Gordon says. ‘It’s **analogous** to the

heart. Breaking your arm is unpleasant it takes a while to recover but eventually you're as good as new. If your heart fails, you're in trouble.”

IV. Task 3: Retell the passage

The debate over the social utility of banks has been raging since the 2008 credit crisis, but it's an old argument, echoing the disagreement between Thomas Jefferson, who saw banks as dangerous, and Alexander Hamilton, who saw them as “happy engines” of growth. Historically, banks came of age during the industrial revolution, providing the vast amounts of capital needed for the creation of major corporations like Carnegie Steel and General Electric.

By the early 20th century, as stock markets emerged, powerful bankers like J.P. Morgan had to step in to shore up the entire banking system during the Panic of 1907. Later, banks like Citibank, under Walter Wriston, revolutionized consumer finance by introducing automated teller machines. Investment bankers facilitated the growth of conglomerates through mergers and acquisitions and even helped bail out New York City in the 1970s. The passage concludes that regardless of the debate, banks are undeniably vital, comparing them to the heart in the “circulatory system of the economy”.

V. Task 4: Discussion Topics

1. **The 2008 financial crisis exposed the weaknesses of the banking industry. What is your opinion on banks' roles in the economy? What measures should be taken to avoid those weaknesses so as to ensure the smooth development of the financial sector?**

The passage confirms that banks play a pivotal role, acting as the “heart” of the economy, but also highlights their weaknesses. It notes that banks have been at the “epicentre of every economic boom or bust,” including the creation of the “massive mortgage bubble” through debt-securitization that led to the 2008 crisis. While the text doesn't prescribe future measures, it mentions a past measure: Depression-era regulations that separated commercial banking (deposits and loans) from investment banking (issuance and trading of securities). The fact that governments had to bail out the banks also points to the systemic risk they pose.

2. **Can you differentiate between commercial banks and investment banks? What are their different functions?**

Yes, the text makes a clear distinction based on regulations from the Depression era.

- **Commercial Banks:** Their primary functions are “taking deposits and making loans”. The Background Reading section further details that they safeguard money, provide payment services, and their main revenue comes from interest on loans (commercial, consumer, and mortgage).
- **Investment Banks (“Wall Street”):** Their functions involve the “issuance and trading of securities”. The passage provides examples of their work, such as helping corporations expand through “mergers and acquisitions,” creating the “junk-bond market,” and developing “debt-securitisation markets”.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

JPMorgan Chase (JPM) emerged from the financial crisis as the emblematic Wall Street bank, being

more diversified than Goldman and more coherent than Citigroup. However, the bank faces several steep challenges. First, it must deal with the lingering “headaches” from the crisis, including bad assets from its acquisitions of Bear Stearns and WaMu, which are causing its loan book to shrink, and the prospect of hefty legal costs related to mortgage securities and the Bernie Madoff scandal. Second, its future growth is constrained; it is too big to acquire more banks in the U.S., and it has “yawning gaps” in its international business, where it is trying to expand. Third, new regulations like the Dodd-Frank Act and Basel rules will pressure its profits and require it to hold more capital. Finally, the bank faces the broader challenge of the “relative decline” of American banks compared to their European and Asian competitors.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** JPMorgan Chase has become the defining Wall Street bank of this period, much like Citigroup was in the late 1990s and Goldman Sachs was before the financial crisis.
2. **Paraphrasing statement 2:** In the first quarter, the bank’s large consumer banking unit was unprofitable because of expenses related to cancelling bad mortgage debts and legal fees.
3. **Paraphrasing statement 3:** CEO Jamie Dimon expects the bank to achieve strong internal growth as the economy gets better, but he also notes that lending activity will be slow as consumers concentrate on paying off their debts.
4. **Paraphrasing statement 4:** It is beneficial that he avoids forcing a single, uniform culture on the company’s various divisions and instead fosters an environment where his deputies address problems openly rather than hide them.
5. **Paraphrasing statement 5:** Banks in the United States face the additional problem of losing their dominant position in the global market to rivals from Europe and Asia.

III. Task 3: True or False

1. **False.** The passage states that JPM is “more diversified than Goldman”.
2. **False.** The text says the purchases brought advantages like expanding its network but also disadvantages like “piles of duff assets”.
3. **True.** The text says, “Mr Dimon envisages strong organic growth as the economy recovers”.
4. **False.** The passage states that “around a quarter of group revenues are earned” abroad.
5. **True.** The passage explicitly mentions that “American banks face the added challenge of relative decline versus European and Asian rivals”.

IV. Task 4: Discussion Questions

1. **The financial crisis has left many headaches for banks. What are those headaches? How can banks deal with those problems?**

The passage identifies several headaches for a bank like JPM post-crisis:

- **Bad Assets:** Dealing with “piles of duff assets” from crisis-era acquisitions.
- **Legal Costs:** Facing huge legal costs and settlements over “dodgy mortgage securities” and mishandled foreclosures.
- **Slow Growth:** Facing limits to growth at home and challenges in strengthening its presence abroad.

- **Regulation:** The impact of new rules like Dodd-Frank and Basel, which pressure margins in key businesses and require holding more equity.
- **Complexity:** The risk of being too large and complex to manage effectively.
- **Global Competition:** The “relative decline” compared to European and Asian banks.

The passage suggests dealing with these issues requires clearing up the financial “detritus,” having a long-term strategy for expansion (“We’re in for the long haul”), and having a strong management culture that confronts bad news instead of burying it.

2. **Do you know any Chinese investment banks? Give your examples?**

This is an open question.

Unit 4 Securities

Background Reading Questions

1. **Please Use your own words to explain the definition of a security.**

A security is a tradable financial asset that represents a certain monetary value. It can be bought and sold between parties and can exist either as a physical certificate or, more commonly today, in electronic form. Examples include stocks, bonds, and mutual funds.

2. **How many types of securities are there? Among them, which one is most familiar to you?**

According to the text, securities are broadly categorized into three main types:

- **Debt securities**, which include instruments like bonds and debentures.
- **Equity securities**, with common stocks being a primary example.
- **Derivative contracts**, such as forwards, futures, and options.

Among these, equity securities (common stocks) are likely the most familiar, as they represent ownership in publicly traded companies that are often well-known household names.

3. **What is your own understanding of “buying on margin”?**

As defined in the text, “buying on margin” is the practice of purchasing securities with borrowed money. In this arrangement, the securities or cash that the investor already owns are used as collateral to secure the loan from the lender.

4. **If you are to make investment in securities, which type will you choose? Why?**

The choice between different types of securities depends on the investment goal. Based on the text:

- An investor seeking a steady and predictable income stream might choose **debt securities**. This is because they “generally offer a higher rate of interest than bank deposits”.
- An investor seeking to increase the value of their initial investment over the long term might choose **equities** (stocks). This is because equities “may offer the prospect of capital growth”.

Issues

Fill in the blanks

1. Securities regulation
2. the thirteenth century

3. the registration of railroad securities
4. being victimized
5. unwitting investors
6. blue-sky laws

Discussion Questions

- **Please Use your own words to explain the definition of a security.**
A security is a tradable financial asset that holds monetary value. Examples include stocks, bonds, and mutual funds. Securities can be issued by companies or governments to raise money and can exist either as physical certificates or, more commonly, in electronic form.
- **How many types of securities are there? Among them, which one is most familiar to you?**
Securities are broadly categorized into three types:
 - **Debt securities**, such as bonds and debentures.
 - **Equity securities**, such as common stocks.
 - **Derivative contracts**, such as futures and options.
 Of these, equity securities like common stocks are often the most familiar to the general public, as they represent ownership in a company.
- **What is your own understanding of “buying on margin”?**
“Buying on margin” is the practice of purchasing securities using borrowed money. The loan is secured by other securities or cash that the investor already owns, which act as collateral for the loan.
- **If you are to make investment in securities, which type will you choose? Why?**
The choice of security depends on the investment goal. According to the text, debt securities are generally chosen by those seeking income, as they typically offer a higher interest rate than bank deposits. Equities (stocks) would be chosen by those seeking capital growth. Equities may also offer a degree of control over the issuing business.
- **Do you think there should be regulation over securities? Why? What do you know of the securities regulation in China?**
Yes, the text strongly suggests that securities regulation is necessary. The history of regulation shows it developed to protect investors. For example, the first comprehensive securities laws in the U.S. were enacted because investors felt they were “being victimized by capitalists” and to stop salesmen from selling “worthless interests in fly-by-night companies” to “unwitting investors”. These laws, known as “blue-sky laws,” were created to ensure that securities had real assets backing them, not just “the blue skies of Kansas”. Students may be asked to search for specific information about securities regulation in China.
- **Hold a discussion on this issue: Many people hold the idea that insufficient regulation of financial derivatives is a factor leading to the US sub-prime crisis.**
After the financial crisis, a consensus emerged among regulators and market participants that the “privately traded, over-the-counter (OTC) derivatives markets” were “dangerously opaque and illiquid”. The lack of transparency and liquidity are hallmarks of insufficient regulation. The subsequent push to introduce features of the regulated futures markets to the OTC swaps market was a direct response to this perceived failure of regulation.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What qualifications should a wise investor have?**

The passage suggests that being cautious is a key qualification for a wise investor. Even after a market rebound, “investors remained cautious amid lingering worries about Europe’s debt crisis and the slowing US economy”.

2. **People say “the stock market is the barometer of the whole economy”. How do you understand this saying?**

The passage provides a clear example of this principle. Asian stock markets rose significantly “after the Federal Reserve pledged to keep interest rates at a record low,” a move designed to support the U.S. economy. This shows the market directly reacting to major economic policy. Furthermore, investors’ continued caution, based on “worries about Europe’s debt crisis and the slowing US economy,” reflects how the stock market’s mood is a measure of broader economic health.

3. **What is short-selling?**

Short-selling is when a person sells securities that they do not actually own, hoping to buy them back later at a lower price to make a profit . The passage also notes that financial regulators in Seoul announced a temporary ban on short-selling all stocks to help stabilize the market.

II. Task 1: Multiple Choice

1. **D.** Oil and metal prices did not rebound.
2. **D.** Rio Tinto.
3. **C.** compensation for the nuclear disaster following the earthquake and tsunami.
4. **A.** 16.
5. **C.** US Treasury yields reached a new high.

III. Task 2: Fill in the blanks

“In Tokyo, Sony remained under pressure, **shedding** 2.4 per cent after the electronics group said a UK warehouse had been hit by the riots and looting in the country over the past four days. The group said **deliveries** in the UK of compact discs and DVDs could be affected after a fire hit its sole warehouse for content products in the country. Tokyo Electric Power **surged** 10 per cent after the utility reported its first-quarter earnings. The utility reported a Y571.7bn net loss for its first quarter due to **compensation** for the nuclear disaster following the earthquake and tsunami, but investors snapped up the shares on the **perception** that a major risk factor for the company had passed.”

IV. Task 3: Retell the passage

Asian shares and commodities rebounded after the U.S. Federal Reserve pledged to keep interest rates at a record low until mid-2013. Major indexes in Japan, South Korea, Australia, and Hong Kong all rose, taking their cue from a rally on Wall Street. Chinese banks also gained on expectations that Beijing would not raise interest rates. In Seoul, markets were further boosted after regulators announced a ban on short-selling.

The Fed's announcement caused U.S. Treasury yields to plunge to record lows, with the two-year note falling to just 16 basis points. The move also led to a surge in safe-haven currencies like the Swiss franc. The decision was not unanimous, however, as three Fed officials dissented from the vote, an unusual event that one strategist described as being "pretty close to mutiny".

V. Task 4: Discussion Topics

1. How many types of stock are there? How are they traded?

Types of Stock

There are two primary types of stock (or shares), which represent ownership in a publicly-traded company:

- **Common Stock:** This is the most prevalent type of stock. Holders of common stock have a claim to a company's assets and earnings, and they are typically granted voting rights, which allows them to participate in corporate decisions like electing the board of directors. While they may receive dividends, these payments are not guaranteed and are only paid after dividends to preferred stockholders have been distributed.
- **Preferred Stock:** Holders of preferred stock generally have no voting rights. However, they have a higher claim on the company's assets and earnings. They are paid a fixed dividend at regular intervals, and these dividends must be paid out before any are distributed to common stockholders. In the event of liquidation, preferred stockholders are paid before common stockholders.

Beyond these two main types, stocks can also be categorized in other ways:

- **By Class:** Some companies issue different classes of stock (e.g., Class A, Class B), which may have different voting rights.
- **By Market Capitalization:** Stocks are often grouped by the size of the company: **Large-cap**, **Mid-cap**, and **Small-cap**.
- **By Investment Style:** Stocks can be classified as **growth stocks** (companies expected to grow faster than the market average) or **value stocks** (companies that appear to be trading for less than their intrinsic worth).

How Stocks Are Traded

Stocks are primarily traded in two ways:

On Stock Exchanges: This is the most common method. An exchange is a centralized marketplace where buyers and sellers come together to trade securities. Investors place orders through a licensed broker (either a person or an online platform), who then executes the trade on the exchange. The exchange matches buy orders with sell orders based on price. Major global stock exchanges include the New York Stock Exchange (NYSE), Nasdaq, the London Stock Exchange (LSE), and the Tokyo Stock Exchange (TSE).

Over-the-Counter (OTC): This is a decentralized market where securities not listed on a major exchange are traded directly between two parties, without the supervision of an exchange. OTC trading is typically for smaller or less-liquid companies.

2. Can you tell the differences among these three types of treasury securities?

U.S. Treasury securities are debt instruments issued by the U.S. government and are considered among the safest investments in the world. The three main types are Treasury

Bills, Treasury Notes, and Treasury Bonds, and they are primarily differentiated by their **maturity period** and how they **pay interest**.

- **Treasury Bills (T-Bills):**
 - **Maturity:** Short-term, with maturities of one year or less (common terms are 4, 8, 13, 26, and 52 weeks).
 - **Interest Payment:** T-Bills do not pay regular interest. Instead, they are sold at a discount to their face value (par value). The investor's return is the difference between the purchase price and the face value they receive when the bill matures. For example, you might buy a \$1,000 T-bill for \$990 and receive the full \$1,000 at maturity.
- **Treasury Notes (T-Notes):**
 - **Maturity:** Intermediate-term, with maturities ranging from two to ten years (common terms are 2, 3, 5, 7, and 10 years).
 - **Interest Payment:** T-Notes pay interest at a fixed rate every six months until maturity. At maturity, the investor receives the full face value of the note.
- **Treasury Bonds (T-Bonds):**
 - **Maturity:** Long-term, with maturities of more than ten years (typically issued for 20 or 30 years).
 - **Interest Payment:** Like T-Notes, T-Bonds pay interest at a fixed rate every six months until maturity, at which point the investor receives the full face value. Because of their long duration, T-Bonds are the most sensitive to interest rate fluctuations.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

Following the financial crisis, regulators and investors sought to make the dangerously opaque over-the-counter (OTC) derivatives market safer by adopting features from the regulated futures market. However, a year ago, investment manager BlackRock sparked a major industry debate by arguing that the rules for swaps should be even stricter than for futures. The core of the debate is the use of “pooled” or “omnibus” accounts in the futures market, where a clearing agent holds assets from all its customers together. BlackRock argued this model exposes clients to the risk of other clients defaulting and demanded “separate” or “segregated” accounts for swaps. Industry dealers and clearing houses countered that separate accounts would be operationally complex and costly, and would remove the “additional safety net” that pooled accounts provide. The U.S. regulator, the CFTC, has since proposed a compromise of “legal segregation,” but the final rules are still being debated.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** To improve the safety of the financial system, there was a concerted effort to apply many of the rules and structures from the regulated, exchange-based futures markets to the over-the-counter swaps market.
2. **Paraphrasing statement 2:** Once regulators began discussing the topic with futures exchanges and derivatives dealers, it became obvious that the argument over using pooled

versus separate accounts would be intensely controversial.

3. **Paraphrasing statement 3:** The use of omnibus accounts served as an extra layer of protection for the clearing house in case a futures clearing merchant (FCM) failed.
4. **Paraphrasing statement 4:** The regulatory agency introduced a proposed rule that could make it possible for collateral and margin payments to be kept in segregated accounts.
5. **Paraphrasing statement 5:** The final resolution of this discussion, and the way regulators choose to balance the competing interests of market participants, will provide significant insight into the larger debate on how similar swaps should ultimately become to futures.

III. Task 3: True or False

1. **False.** The passage states it was “Nearly a year ago,” not two years ago.
2. **True.**
3. **True.**
4. **False.** The passage states the *omnibus accounts* held by FCMs, not the FCMs themselves, “were widely regarded as an additional financial safety net”.
5. **False.** The passage states that “the final rules are [not yet] set” and that heated debate is still likely.

IV. Task 4: Discussion Topics

1. **The debate on pooled account vs. separate account in the derivatives industry has been heated. Which side do you stand by? Why?** The text presents compelling arguments for both sides:
 - **Argument for Separate Accounts (Investor Protection):** This model, advocated by BlackRock, protects an investor’s assets from being used to cover the default of another, unknown customer of the same clearing agent. It aims to eliminate “fellow-customer risk”.
 - **Argument for Pooled (Omnibus) Accounts (System Stability/Efficiency):** This model, supported by dealers and clearing houses, is seen as an “additional safety net” for the entire clearing system in the event of a default. It is also operationally simpler and results in lower margin charges for clients.
2. **What are swaps and futures? How are they traded on the market?** Based on the provided texts:
 - **Futures:** These are financial contracts for a transaction to be completed at a future date. They are traded on regulated exchanges (“exchange-traded”).
 - **Swaps:** These are a type of financial derivative where two parties agree to exchange assets or cash flows in the future. They have traditionally been traded in “privately traded, over-the-counter (OTC) derivatives markets,” which are considered less transparent and more illiquid than exchanges. There is now a major regulatory push to have them cleared and traded more like futures to make them safer.

Unit 5 Insurance

Background Reading Questions

1. What is insurance in the relatively primitive non-monetary economies like?

In relatively primitive, non-monetary economies, insurance took the form of agreements of mutual aid. For example, if a family's house was destroyed, their neighbors were committed to helping them rebuild it. Another primitive form of insurance was the use of granaries to provide indemnification against famines.

2. Give at least two examples to briefly explain how insurance in the modern money economies works.

The text provides several examples of early methods of risk transfer in modern money economies:

- **The Babylonian System:** Merchants who received a loan to fund a shipment could pay the lender an extra sum. In exchange for this payment, the lender guaranteed that the loan would be cancelled if the shipment was stolen or lost at sea. This is an early form of paying a premium for a guarantee against loss .
- **The Rhodian "General Average":** Merchants shipping goods together would pay a proportionally divided premium into a collective fund. This fund was then used to reimburse any merchant whose goods had to be deliberately thrown overboard to save the ship and the rest of the cargo from total loss.

3. What is separate insurance contract and what is it invented for?

A separate insurance contract is an insurance policy that is not bundled with other types of contracts, such as loans. It was invented in Genoa in the 14th century. The purpose of this invention was to allow insurance to be separated from investment, a division of roles that proved to be particularly useful in the field of marine insurance.

4. What have you learned about the history of insurance?

From the text, I have learned that the history of insurance can be traced back to the earliest human societies, starting as informal agreements of mutual aid. In early monetary economies, traders developed methods of risk distribution, such as Chinese merchants spreading their cargo across multiple vessels and Babylonians paying an extra fee to have a shipping loan cancelled in case of loss. A key development was the invention of "general average" by the inhabitants of Rhodes, which introduced the concept of a pooled premium paid by many to cover the losses of a few. A major step towards modern insurance was the invention of separate insurance contracts in 14th century Genoa, which allowed for the separation of insurance from investment. Insurance then became much more sophisticated and specialized in post-Renaissance Europe.

Issues

Fill in the blanks

1. premium income
2. risk landscape
3. the industry's stakeholders
4. holistic service approach
5. global premiums
6. seamlessly resume

Discussion Questions

- **What is the general situation of global insurance?**
The global insurance industry experienced a relatively light downturn during the Covid-19 crisis, with premium income falling by only 2.1% in 2020. Strong growth of 5.1% was expected for 2021, with this recovery mirroring global economic development. The recovery is expected to be uneven, with Asia resuming pre-crisis growth levels while Western Europe lags behind. A significant trend is the industry's transformation towards a more holistic service approach focused on risk management and prevention, driven by increased stakeholder demands post-pandemic.
- **How has the Covid-19 pandemic influenced global insurance?**
The Covid-19 pandemic caused a -2.1% fall in global premium income in 2020. The life insurance sector was hit harder, slumping by -4.1%, while the property insurance sector grew by +1.1%. The crisis also accelerated a change in the industry, increasing the demands of stakeholders regarding customer engagement and pushing insurers towards a more service-oriented approach that focuses on managing and preventing risks.
- **Discuss in groups about the current situation and the future of global insurance.**
 - **Current Situation:** The industry is in a strong but uneven recovery phase after a mild downturn in 2020. Growth is being driven by the US and China, while Western Europe's recovery is much slower.
 - **Future:** The future of the insurance industry involves a "profound transformation" away from selling simple products and toward providing a "holistic service approach". This shift is driven by a fundamental change in the awareness and behavior of consumers and other stakeholders after the pandemic, who now have higher demands regarding risk management and prevention.
- **What is the relationship between insurance industry and the general economic situation?**
The insurance industry's performance is closely linked to the general economic situation. The text states that the expected growth in the insurance sector in 2021 is "Mirroring the global economic development". Furthermore, insurers play a crucial role in the economy by acting as major investors and suppliers of capital. They perform a "capital formation function similar to that of banks," enabling businesses to operate by transferring risk while also providing them with capital funds through the purchase of stocks and bonds. This, in turn, supports the availability of products and services and creates jobs.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What are the main principles of insurance? What is the function of insurance?**
The central concept and main principle of insurance is the sharing, or pooling, of risk. The basic function of insurance is the transfer of risk. Its aim is to reduce financial uncertainty and make accidental losses manageable by substituting the payment of a small, known fee (a premium) for the assumption of a large, unknown risk.
2. **How many types of insurance are you familiar with? Name some of them and describe their functions.** The text mentions several types of insurance:
 - **Ocean marine insurance:** One of the earliest forms, it protects merchants and shipowners against the financial costs of losing cargoes and vessels at sea.

- **Fire insurance:** Provides coverage for losses due to fire. The first company was founded in London in 1667.
 - **Auto insurance:** Offers financial protection to car owners for costly accidents. This can include liability coverage, which was first issued in 1887.
 - **Property/casualty insurance:** A broad category that covers a wide range of perils, from hurricanes and tornadoes to identity theft and negligence.
3. **Have you ever bought any type of insurance? Do you think it is necessary to buy insurance? And why?**

The text strongly argues that insurance is necessary for a modern society to function. Without it, there would be so much uncertainty and exposure to catastrophic loss that it would be difficult to plan for the future. Most importantly, it would be difficult to obtain credit or financing, as lenders and investors would be unwilling to risk their funds without a guarantee of safety for their investments, which insurance provides.

II. Task 1: Multiple Choice

1. C. Chinese merchants
2. B. 1667
3. B. Gilbert Loomis
4. C. It would be difficult to obtain credit or financing.
5. D. all of the above

III. Task 2: Fill in the blanks

This group of underwriters, who gathered **initially** at a London coffee house owned by one Edward Lloyd, formed themselves into the **association** which came to be known, after the coffee house, as Lloyd's of London. Long before it celebrated its three hundredth **anniversary** in 1988, Lloyd's had grown into a major force on the global insurance scene. Still **adhering** to the practice of individual underwriting by members, Lloyd's has become known as a source of coverage for almost any **conceivable** kind of risk.

IV. Task 3: Retell the passage

The central concept of insurance is the sharing of risk, a practice that originated in antiquity with Chinese merchants who would divide their cargo among several boats to limit potential losses. This evolved into modern insurance, where financial agreements like policies are used to spread the monetary cost of losses among many people, with an insurer acting as the financial intermediary. Modern insurance underwriting began in 17th century England, famously at Edward Lloyd's coffee house, which grew into the global institution Lloyd's of London. Specialized forms of insurance developed over time, such as fire insurance after the Great Fire of London in 1666 and auto insurance with the invention of the automobile.

The purpose of insurance is to transfer risk and reduce financial uncertainty, making accidental losses manageable. Insurance is crucial to society; without it, obtaining credit or financing would be difficult, as lenders would have no guarantee of safety for their investments. Insurers also benefit society by becoming major investors and suppliers of capital to the economy, similar to banks.

V. Task 4: Discussion Topics

1. **What is the historical origin of insurance? How did it evolve into the modern form?**

The historical origin of insurance lies in primitive agreements of mutual aid and risk-sharing. Early examples include Chinese merchants in the 3rd millennium BC dividing their cargo among multiple ships to limit losses and Babylonians developing a system where a loan would be cancelled if a shipment was lost at sea. The concept of “general average” was later invented in Rhodes, where merchants would pay into a collective premium to reimburse anyone whose goods were jettisoned to save the ship.

It evolved into its modern form in post-Renaissance Europe. Separate insurance contracts were invented in Genoa in the 14th century, allowing insurance to be separated from investment. The practice of underwriting began in 17th century England with private investors signing their names under listings of marine voyages at a London coffee house, which eventually became Lloyd’s of London. From there, specialized varieties like fire and auto insurance developed to meet the needs of a changing world.

2. **What are the purposes of insurance in modern society? How does insurance benefit the society?**

The primary purpose of insurance is to transfer risk, reduce financial uncertainty, and make accidental loss manageable. It benefits society in three main ways:

- It allows people and businesses to plan for the future with confidence by protecting them from sudden, catastrophic losses.
- It is essential for the economy’s credit and financing systems, as few lenders would risk their money without the guarantee of safety that insurance provides for their investments.
- Insurers act as major investors, supplying capital to the economy by investing the funds they hold in stocks and bonds, which helps businesses operate and grow, creating jobs and benefiting consumers.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The insurance industry is embracing an environmental trend by offering “green” policies for homes and cars. These new products offer features like paying to rebuild a destroyed home with sustainable materials, providing discounts for hybrid cars, and offering “pay-as-you-drive” policies that give steep discounts for lower mileage. Insurers are motivated by the fact that green consumers are often upscale and that eco-friendly behaviors, such as driving less, are linked to a lower risk of accidents. While these policies are currently sold in select states, insurers plan to roll them out nationwide. Examples include discounts of up to 10% for hybrid owners and pay-as-you-drive savings of up to 54% from GMAC for customers who keep their mileage low, which is tracked by in-car devices. Green homeowners’ policies from companies like Lexington Insurance are also emerging, allowing policyholders to rebuild with eco-friendly materials for a small extra premium.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** Individuals who purchase hybrid cars generally tend to be more careful and responsible when it comes to their driving habits and vehicle upkeep.
2. **Paraphrasing statement 2:** While insurers have always provided some discounts to low-

mileage drivers, the new environmentally-focused discounts can be exceptionally large.

3. **Paraphrasing statement 3:** The insurance policies for homeowners are in the early stages of being introduced to the market.
4. **Paraphrasing statement 4:** Instead of paying an additional 3% for insurance coverage on an event that might not occur, wouldn't it be more sensible to invest in better home insulation now?
5. **Paraphrasing statement 5:** Certain insurance policies are specifically designed to meet the needs of people who produce their own power.

III. Task 3: True or False

1. **False.** The passage states that "only a handful of policies are available, and most are sold only in selected states".
2. **True.** The passage specifically describes Allstate's policy this way.
3. **True.** The passage states this is the savings "on average" for that mileage bracket.
4. **True.** The passage states, "Vehicles are outfitted with a GPS or other mileage-tracking device".
5. **True.** The passage provides these exact details about the Lexington Insurance program.

IV. Task 4: Discussion Questions

1. **What methods do the insurers employ to make insurance "green" currently? Please give specific examples to illustrate your point.** The text outlines several methods:
 - **Offering discounts for hybrid cars:** Insurers like Travelers and Farmers cut up to 10% off the price of a standard policy for hybrid owners.
 - **Implementing "pay-as-you-drive" policies:** These offer steep discounts for driving less. For example, GMAC Insurance customers who drive less than 2,500 miles a year can save about 54%. Mileage is tracked with a device in the vehicle.
 - **Providing eco-friendly rebuilding options:** Homeowners policies, such as Lexington Insurance's "Upgrade to Green Residential" program, will pay for rebuilding a home with sustainable materials like bamboo and energy-efficient appliances after a loss.
 - **Incentivizing other green behaviors:** Allstate's green policy offers a discount for paperless billing and donates to pollution-reducing projects.
 - **Catering to self-generated energy:** Some policies are designed for households that generate their own solar, wind, or geothermal energy, covering costs if their systems fail.
2. **How can "green" insurance influence people's life?**

Green insurance can influence people's lives by creating financial incentives for environmentally friendly behavior. For example, a "pay-as-you-drive" policy can motivate a family to limit their driving to save a significant amount of money on their insurance premium. It also makes sustainable living more accessible by covering the extra cost to rebuild a home with eco-friendly materials after a disaster, something a homeowner might not otherwise be able to afford.

Unit 6 Financial Supervision

Background Reading Questions

1. **Why is there the need for financial supervision?**

There is a need for financial supervision because, while a competitive financial system should ideally encourage prudent practices on its own, this “may not happen, or may not happen quickly enough”. Therefore, official oversight is justified “to strengthen prudential management” of the financial sector.

2. **What are the notable trends in supervisory standard-setting?**

The text identifies four notable trends in supervisory standard-setting:

- **Working with market forces:** Recognizing that the most effective regulation works with, not against, market disciplines and seeks to increase transparency.
- **International consistency:** Accepting that the globalization of finance requires internationally consistent prudential norms to prevent risks like regulatory arbitrage (where firms seek out the least stringent rules).
- **High-quality financial infrastructure:** Recognizing that efficient financial markets require a strong infrastructure, including contract law, bankruptcy procedures, and accounting standards.
- **Interdependence of standards:** Realizing that different standards are linked; for example, minimum capital requirements for banks are not effective if the accounting rules used to value assets are flawed.

3. **What do you know about the Basel Committee? How does it work?**

The Basel Committee on Banking Supervision is an international forum for cooperation on banking supervisory matters. Its main objective is to “enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide”. It works by facilitating the exchange of information among national supervisors and developing international guidelines and standards, such as those for capital adequacy. The Committee is best known for its international standards on capital adequacy, the Core Principles for Effective Banking Supervision, and the Concordat on cross-border banking supervision.

4. **What kind of role do you think the IMF and World Bank should play in securing the prompt implementation of the wide range of standards?**

According to the text, the IMF and World Bank play an important role in ensuring standards are implemented because peer pressure alone is not sufficient. They use their consultation missions with member countries to conduct Financial Sector Assessment Programs (FSAPs) and Reports on Standards and Codes (ROSCs). These programs serve as a key means for countries to “benchmark” their current practices against international standards, identify weaknesses, and create plans to address them.

Issues

Fill in the blanks

1. asset prices
2. sharp deterioration
3. short-term funding

4. balance sheets
5. supervisory framework
6. highly leveraged
7. inadequate and inconsistent

Discussion Questions

- **What do you think is the main cause of the American financial crisis?**
According to the text, the American financial crisis was caused by a combination of factors. These included a dangerous buildup of risks, rising asset prices (particularly in housing) which concealed a “sharp deterioration of underwriting standards,” and the nation’s largest financial firms becoming highly leveraged and overly dependent on unstable short-term funding.
- **What is the performance of the American supervisory framework during such a crisis?**
The performance of the American supervisory framework was poor. The text explicitly states that the framework “was not equipped to handle a crisis of this magnitude” and that the existing forms of supervision and regulation “proved inadequate and inconsistent”.
- **Discuss with your classmates and teachers about the importance of financial supervision for economic stability.**
The text illustrates that financial supervision is critical for economic stability. The American financial crisis demonstrates what can happen when supervision is inadequate: dangerous risks build up, firms become over-leveraged, and a systemic crisis can occur. Effective financial supervision is therefore necessary to identify and mitigate these risks before they threaten the entire economy.
- **Make a discussion in the class about the financial supervision organizations and policies of our country.**
Passage 2 provides a detailed overview.
 - **Organizations:** China restructured its system in 2018. The previous “one bank and three commissions” structure was replaced. The banking (CBRC) and insurance (CIRC) regulators were merged into the new China Banking and Insurance Regulatory Commission (CBIRC). The central bank (PBOC) was given more policymaking authority, and a new high-level body, the Financial Stability and Development Committee (FSDC), was created to coordinate overall strategy.
 - **Policies:** The goal of the new policy is to address runaway credit growth by creating a more “function-based rather than organization-based regulatory system”. This aims to improve coordination, reduce regulatory loopholes, and make the overall push for deleveraging and reducing financial risk more credible.
 - Students may be asked to update the information.

Listening Practice: Passage 1

I. Warm-up Practice

1. **How many international institutions do you know are responsible for monitoring the financial situation worldwide? What are the functions of them?**
The texts mention three key international bodies:
 - **The Basel Committee on Banking Supervision:** Its function is to improve the

quality of banking supervision worldwide by setting international standards (e.g., on capital adequacy).

- **The IMF and the World Bank:** Their functions include conducting Financial Sector Assessment Programs (FSAPs) and Reports on Standards and Codes (ROSCs) to help member countries benchmark and improve their financial systems.
- **The Bank for International Settlements (BIS):** It hosts the Basel Committee's Secretariat and provides a forum for international cooperation.

2. **What financial supervision institutes do we have in China? What are they respectively responsible for?**

As of the 2018 reforms described in Passage 2, the main financial supervision institutes in China are:

- **The Financial Stability and Development Committee (FSDC):** A high-level body responsible for coordinating overall strategy for the financial sector.
- **The People's Bank of China (PBOC):** The central bank, responsible for system-wide policy formulation, including legislative and rulemaking functions for banking and insurance.
- **The China Banking and Insurance Regulatory Commission (CBIRC):** The merged regulator responsible for the day-to-day implementation of policy and supervision of banking and insurance institutions.
- **The China Securities Regulatory Commission (CSRC):** The regulator for the securities industry.
- Students may be asked to update the information.

3. **Could you give some advice for the bank supervision in China?**

Based on the trends in global standard-setting described in the "Background Reading," advice for bank supervision in China could include continuing to:

- Work with market forces and increase transparency.
- Ensure its prudential norms are internationally consistent to avoid regulatory arbitrage.
- Strengthen the underlying financial infrastructure, including contract law and auditing standards.

The reforms described in Passage 2 appear to align with these principles, particularly by creating a more coordinated and function-based system to address systemic risk.

II. Task 1: Multiple Choice

1. C. the Netherlands Bank
2. C. Basel, Switzerland
3. A. Standards Implementation Group
4. B. Policy Development Group
5. D. all of the above

III. Task 2: Fill in the blanks

The Accounting Task Force (ATF) works to help **ensure** that international accounting and auditing standards and practices promote sound risk management at banks, support market **discipline**

through transparency, and **reinforce** the safety and soundness of the banking system. To fulfill this mission, the task force develops **prudential** reporting guidance and takes an active role in the development of international accounting and auditing standards. Ms. Sylvie Mathérat, Deputy Director General, Bank of France, **chairs** the ATF.

IV. Task 3: Retell the passage

The Basel Committee on Banking Supervision is a key international body that provides a forum for regular cooperation on banking supervisory matters, with the objective of improving the quality of banking supervision worldwide. Its members include central banks and supervisory authorities from major economies, and its Secretariat is located at the Bank for International Settlements in Basel, Switzerland. The Committee's work is organized under four main sub-committees: the Standards Implementation Group, which promotes consistent implementation of standards; the Policy Development Group, which identifies emerging issues and develops new policies; the Accounting Task Force, which focuses on accounting and auditing standards; and the Basel Consultative Group, which engages with supervisors from non-member countries.

V. Task 4: Discussion Topics

1. What is the Basel Committee? What is its objective?

The Basel Committee on Banking Supervision is a forum that facilitates regular cooperation among banking supervisors from around the world. Its main objective is to enhance the understanding of key supervisory issues and to improve the quality of banking supervision globally, which it seeks to achieve by exchanging information and developing international standards and guidelines.

2. What are the four sub-committees of the Basel Committee responsible for?

- **Standards Implementation Group (SIG):** Responsible for promoting consistency in the implementation of the Basel Committee's standards.
- **Policy Development Group (PDG):** Responsible for identifying emerging supervisory issues and developing new policies to promote a sound banking system.
- **Accounting Task Force (ATF):** Responsible for ensuring that international accounting and auditing standards promote sound risk management and transparency in the banking system.
- **Basel Consultative Group (BCG):** Responsible for deepening the Committee's engagement with supervisors from non-member countries on key issues.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

In March 2018, China restructured its financial regulatory system to address the problem of runaway credit growth fueled by speculative investments. The previous fragmented system of "one bank and three commissions" was flawed, as it struggled to regulate hybrid financial products and lacked coordination. The reform merged the banking and insurance regulators into the new China Banking and Insurance Regulatory Commission (CBIRC) and gave more policymaking authority to the central bank, the PBOC. A new high-level committee, the FSDC, was also created to coordinate

overall strategy. This new function-based structure aims to make the push for deleveraging more credible by reducing regulatory loopholes and separating the roles of system-wide policymaking from individual institutional oversight, which helps to reduce conflicts of interest.

II. Task 2: Paraphrasing statements

1. The reform was a positive change that will help manage the credit problem by creating a regulatory framework based on financial functions rather than on company types.
2. In the early 2000s, Chinese banks were struggling with a massive amount of bad loans that required huge government bailouts, while also facing the imminent threat of foreign competition after China's entry into the WTO.
3. In the old structure, the central bank was the most senior of the regulators, but it lacked the formal power over the other three commissions to coordinate efforts to manage an increasingly complex financial sector.
4. The overall campaign to reduce debt and financial risk is now more believable, as financial firms will have a harder time finding weaker regulation by simply reclassifying the same economic activities under a different type of company.
5. Regulators may fear implementing urgently needed restrictive system-wide policies if they know it will cause some of the institutions they supervise to fail, as they would be held directly responsible for the failure.

III. Task 3: True or False

1. **True.**
2. **False.** The passage states the merger helps set up a “more function-based rather than organization-based regulatory system”.
3. **True.**
4. **False.** The passage states the FSDC is headed by a vice premier who is “more highly ranked than the heads of the regulatory agencies and the PBOC,” placing it at a higher level.
5. **True.**

IV. Task 4: Discussion Questions

1. **How did China restructure its financial regulation? What are the major changes?**
China restructured its financial regulation by moving away from its fragmented “one bank and three commissions” system. The major changes included:
 - Creating the high-level Financial Stability and Development Committee (FSDC) to coordinate overall strategy.
 - Merging the China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (CIRC) into a single entity, the China Banking and Insurance Regulatory Commission (CBIRC).
 - Delegating the legislative and rulemaking functions of the former CBRC and CIRC to the central bank, the People's Bank of China (PBOC), significantly increasing its power.
 - Students may be asked to update the information.
2. **What should financial regulators do? What are the main challenges to financial regulators?**

- **What they should do:** Based on the passages, financial regulators should strengthen prudential management, ensure norms are internationally consistent, promote a high-quality financial infrastructure, and coordinate their efforts to take a systemic, macroprudential approach to regulation.
- **Main challenges:** The challenges include dealing with regulatory arbitrage, where firms exploit loopholes between different regulatory jurisdictions; regulating hybrid firms and products that blur the lines between banking, insurance, and securities (the “siloe” supervision problem); and overcoming the conflict of interest where a regulator may be hesitant to enforce tough system-wide policies for fear of causing an institution it oversees to fail .

Unit 7 Foreign Exchange

Background Reading Questions

1. **What’s the relationship between a country’s exchange rate and its trade position?**

A country can improve its trade position by setting a low exchange rate for its currency relative to others. This makes the country’s exports more affordable for other nations to buy and makes imports from other countries less affordable for its own citizens.

2. **Since the early 1970s, what has determined foreign exchange rates?**

Since the early 1970s, most major currencies have been allowed to “float,” meaning their exchange rates are determined by supply and demand in the currency markets.

3. **Can you give specific examples to illustrate the intervention in foreign exchange market and why do such interventions exist?**

Governments or their central banks intervene in the foreign exchange market through open market activities, which involve buying or selling currencies to influence their own exchange rate. They also maintain foreign exchange reserves (gold or other currencies) which they can buy and sell to stabilize their currency when needed. Such interventions exist because an unstable or rapidly falling currency can cause economic disruption.

4. **How many types of potential users of foreign currency futures are there and what are they?**

There are two types of potential users of foreign currency futures: the hedger and the speculator.

- **The hedger** uses currency futures to reduce and manage the financial risks that come from doing business in foreign currencies.
- **The speculator** provides risk capital and assumes the risk the hedger wants to offload, hoping to profit by correctly predicting future price movements.

Issues

Fill in the blanks

1. huge and profound changes
2. more than 30 percent
3. a comprehensive study of the key issues
4. the new foreign exchange clearing bank
5. the need for any settlement

6. Netting and Settlement systems
7. Emerging Markets

Discussion Questions

- **How much do you know about the future of foreign exchange?**

The future of foreign exchange is characterized by huge and profound changes. Key trends include rapid market growth, consolidation within the banking industry leading to fewer players, significant developments in trading technology like electronic matching systems, the impact of the European Monetary Union (EMU), and the increasing influence of emerging markets.
- **What kind of study does the future of foreign exchange market provide?**

The text refers to a study titled “The Future of the Foreign Exchange Markets,” which provides a comprehensive analysis of key issues affecting the market. This includes developments in trading technology, the impact of the EMU, and the role of emerging markets.
- **Work in groups and talk about the critical issues that the future of the foreign exchange markets will address.**

The critical issues the foreign exchange markets will address include:

 - Developments in the spot market, the forwards market, and the foreign exchange options and derivatives market.
 - The new dominance of trading technology, particularly electronic matching systems.
 - Changes in netting and settlement systems, with a focus on new clearing banks like CLSS and the rise of Contracts for Differences (CFDs).
 - The effect of the European Monetary Union (EMU) on the market’s size and structure.
 - The growing role of emerging markets’ currencies in forex trading.
- **Hold a debate on this issue: it is a trend for emerging markets to influence more on the future of foreign exchange market than developed countries.**

Arguments supporting this point of view can be drawn from the texts. The proportion of forex trading devoted to emerging markets’ currencies is growing. Furthermore, rampant commodity demand from emerging market countries has significantly boosted the economies and currencies of resource-rich nations. A key factor is that Asian central banks are now the world’s largest reserve-holders, and their strategic decisions to diversify their holdings are influencing global currency markets.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What is your understanding of commodity-linked currencies and why have they been star performers on the foreign exchange market?**

Commodity-linked currencies are the currencies of resource-rich nations, such as the Australian, Canadian, and Norwegian currencies. They have been star performers because the prices of raw materials have surged, boosted by high demand, particularly from emerging market countries.
2. **How much do you know about the so-called “risk-on/risk-off” dynamic?**

The “risk-on/risk-off” dynamic is a market behavior where different asset classes develop high correlations. In this dynamic, when investor risk appetite is high (“risk-on”), perceived risky assets like equities and commodity-linked currencies tend to rise together in lock-step. Conversely, when risk appetite falls (“risk-off”), they tend to fall together.

3. **Compared with risk appetite, are interest rates set to become an increasingly important driver of currency movements? And why?**

Yes, as the global economy recovers, interest rates are expected to become an increasingly important driver, gradually taking over from risk appetite. This is because interest rate differentials between countries are increasing, which will have a greater influence on currency movements.

II. Task 1: Multiple Choice

1. **A.** the Australian dollar
2. **C.** Both A and B.
3. **D.** Rampant commodity demand from emerging market countries.
4. **B.** Asian central banks.
5. **A.** Australian and Canadian dollars.

III. Task 2: Fill in the blanks

The Australian dollar has risen more than **18 per cent** against the US dollar since last June, breaking through parity and standing close to its highest level in 26 years. The currencies of other resource-rich nations have also benefited, with the Canadian dollar climbing more than 6 per cent against its US equivalent since the start of the second half of last year, the Norwegian krone rising nearly 14 per cent and the New Zealand dollar rising more than 7 percent.

IV. Task 3: Retell the passage

Commodity-linked currencies, such as the Australian dollar, have been star performers since mid-2010, driven by surging raw material prices. Their movements have largely been tied to a “risk-on/risk-off” dynamic, where they rise and fall in line with equities and general risk appetite. However, as the global economy recovers, this dynamic is expected to break down, with interest rate differentials becoming a more important driver of currency values.

The strong performance of these currencies has been significantly influenced by the Federal Reserve’s quantitative easing, which pushed money into financial markets and emerging economies. This led to rampant commodity demand from these emerging markets, boosting the economies of resource-rich nations. Additionally, global reserve managers, particularly Asian central banks, have been diversifying their holdings away from traditional currencies and into Australian and Canadian dollars, providing further support.

V. Task 4: Discussion Topics

1. **What’s the role of commodity-linked currencies on the foreign exchange market and how does it change?**

On the foreign exchange market, commodity-linked currencies have played the role of “risky assets” that perform well when raw material prices and investor risk appetite are high. This role is changing as the global economy recovers. The broad “risk-on/risk-off”

dynamic where these currencies trade as a bloc is expected to break down, and the market will likely become more discriminating. Factors like interest rate differentials are set to become more important drivers of their individual performance.

2. **Why has there been a marked shift in the make-up of reserves, according to the latest figures from the International Monetary Fund?**

There has been a marked shift because global reserve managers are diversifying away from traditional currencies like the US dollar, euro, and yen. They are increasing their holdings of “other currencies,” which are believed to be mostly the Australian and Canadian dollars.

This shift is driven by several factors:

- Favorable interest rate differentials.
- The fact that Australia and Canada came through the financial crisis relatively unscathed.
- A strategic move by Asian central banks, the world’s largest reserve-holders, who are bullish on their own growth and believe the commodities produced by these nations will be in high demand.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

Following the devastating earthquake in Japan on March 11, the yen surged to a record high against the dollar, a counter-intuitive move driven by speculation that Japanese institutions would repatriate funds. This strength threatened Japan’s economic stability and created disorderly trading that risked global stability. In response, the G7 nations launched their first coordinated intervention in a decade, successfully weakening the yen. History suggests that such coordinated interventions are far more effective than unilateral efforts. Some analysts argue the yen’s appreciation was irrational and that economic fundamentals, such as the disaster’s impact on Japan’s supply potential, point to a weaker currency in the long run.

II. Task 2: Paraphrasing statements

1. **Paraphrasing statement 1:** This level of currency fluctuation endangers more than just the economic rebound of Japan, the third-largest economy in the world.
2. **Paraphrasing statement 2:** The solo attempts by the Bank of Japan and the Swiss National Bank to weaken their respective currencies achieved very little success.
3. **Paraphrasing statement 3:** The difference in outcomes between when Japan intervenes in the currency market alone versus when it does so as part of a multilateral effort is obvious.
4. **Paraphrasing statement 4:** If investors resume the practice of selling the low-interest yen to fund purchases of higher-yielding assets in other places, it could magnify the impact of the central bank intervention and push the yen’s value down even more.
5. **Paraphrasing statement 5:** The yen is expected to weaken due to the post-earthquake recovery measures and the likelihood that Japan will keep its monetary policy loose while other major central banks start to raise interest rates.

III. Task 3: True or False

1. **False.** The passage states the intervention “took the yen quickly back above the Y80 level against the dollar”.

2. **True.**
3. **False.** The passage states that history suggests coordinated intervention is “more effective than unilateral efforts”.
4. **True.**
5. **False.** Mr. Taylor says, “There is no evidence... that repatriation of funds by Japanese institutions is taking, or is about to take place”.

IV. Task 4: Discussion Questions

1. **What’s the influence of devastating earthquake that hit Japan on March 11 on its currency?**

The immediate influence was a counter-intuitive surge in the yen’s value to a record high against the dollar. This was driven by speculation that Japanese companies would repatriate funds to pay for reconstruction. This extreme strength was seen as a threat to both Japanese and global economic stability, which led to a coordinated G7 intervention to weaken the currency. However, some analysts argue the long-term fundamental influence of the disaster should be a weaker yen, as the shock reduced Japan’s economic supply potential.

2. **According to history, which is more effective to change the direction of a currency, coordinated intervention or unilateral efforts? Can you give an example of it?**

According to the passage, history suggests that coordinated intervention is more effective than unilateral efforts. An example of a successful coordinated intervention was the G7 action to weaken the yen after the March 2011 earthquake. In contrast, the passage provides an example of a unilateral effort that had only limited success: the Bank of Japan’s solo attempt to weaken the yen in September of the previous year.

Unit 8 Accounting

Background Reading Questions

1. **Did the Industrial Revolution depend on accountants and why?**

No, the text states that “The Industrial Revolution depended on inventors and entrepreneurs, not accountants.” However, it clarifies that the *survival* of the firms created during the revolution “required innovative accounting and, later, the development of a profession”. So, while accountants weren’t necessary for the initial inventions, they were crucial for the long-term success and management of the new businesses.

2. **What did current accounting practices start with?**

According to the text, “Many aspects of current accounting practices started with the flood of business regulations from the Roosevelt administration,” which came in response to the stock market crash of 1929 and the Great Depression .

3. **Is it true that accounting at any point in time and place can represent the level of civilization then and there? Give your reasons.**

Yes, the text supports this statement. The reasons given are that as civilizations grew more complex, accounting evolved to meet their needs. For example, scribes in ancient empires invented record-keeping to manage wealth and trade, and accountants later invented writing to handle the complexity of temple wealth. Similarly, the development of double-entry bookkeeping was crucial for the success of Italian merchants during the Renaissance.

4. **What has the rise of the accounting profession benefited since the beginning of the 19th century?**

Since the beginning of the 19th century, the rise of the accounting profession has benefited “business and investors, especially big business, banks, and other institutional investors”. The text explains that “Accounting expertise added both knowledge and credibility to complex financial transactions”.

Issues

Fill in the blanks

1. have an advantage
2. online search and social media
3. faster, easier and often more comprehensive
4. increasing pressures
5. may be located
6. alternative path to trust
7. online transparency

Discussion Questions

- **How much do you know about the future of accounting?**

The text suggests the future of accounting marketing is being shaped by five key trends: 1) Buyers are increasingly using online search and social media to find accounting services. 2) Client loyalty is decreasing due to cost and productivity pressures. 3) Geography is becoming less of a barrier due to communication technology. 4) Trust can now be built online through content like articles and webinars, not just face-to-face contact. 5) Clients now expect to be able to research a firm thoroughly online, demanding a high degree of transparency.

- **Is geography as important as before in the future of accounting?**

No, geography is not as important as it once was. The text states that “Geography is collapsing” as a factor because technologies like video conferencing and email make it easy and affordable to work with clients anywhere. Clients are also now more willing to work with the best firm for their needs, regardless of its location.

- **Work in groups and talk about the five important trends that are shaping the future of accounting marketing.**

The five important trends are:

Changing Search Methods: Buyers are shifting from relying only on traditional referrals to using online search and social media, which they find faster and more comprehensive.

Declining Client Loyalty: Organizations are reviewing their accounting providers more often to save money and increase efficiency, meaning firms must market better just to retain clients.

Collapsing Geography: Technology makes location less relevant, allowing firms to serve a wider geographic area and clients to choose the best firm, not just the closest one.

An Alternative Path to Trust: Trust can now be established online by sharing useful content and expertise through websites and webinars, reaching a large audience without needing face-to-face interaction.

The Expectancy of Online Transparency: Potential clients expect to be able to research a firm completely online and will quickly rule out firms that don't appear open and relevant.

- **Hold a debate on this issue: It is important to keep online transparency for the future of accounting.**
- The text strongly supports the importance of online transparency. It is described as an “emerging reality” where potential clients expect to learn all about a firm online before making contact. This shifts control of the sales process to the buyer. If a firm’s online presence is not candid and relevant, it risks being “ruled out at the very beginning”. Therefore, online transparency is no longer optional; it is essential for an accounting firm to attract and secure new business in the modern marketplace.
- Students may be asked to search for relevant information and form their points of view.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What kind of language is accounting?**

The passage states, “Quite simply, accounting is a language: a language that provides information about the financial position of an organization”.

2. **How many categories of information are required by most organizations and what are they?**

The text says the information can be broken down into three main categories:

- Operating Information
- Financial Accounting Information
- Managerial Accounting Information

3. **According to GAAP, what are the three different statements?**

The text states that GAAP (Generally Accepted Accounting Principles) requires the preparation of three different statements:

- Balance Sheet
- Income Statement
- Statement of Cash Flow

II. Task 1: Multiple Choice

1. **D.** All of the above.
2. **D.** All of the above.
3. **C.** A and B.
4. **A.** Operating information.
5. **B.** GAAP stands for Generally Accepted Accounting Principles.

III. Task 2: Fill in the blanks

Financial information is used to set budgets, **analyze** different options on a cost basis, modify plans as the need arises, and control and monitor the work that is being done. As you can see, accounting

is a **multifaceted** system involving different people with different needs and after analyzing the various uses and applications of **accounting** information the American Accounting Association has come up with this definition: “the process of identifying, measuring, and **communicating** economic information to permit informed judgments and decisions by users of the information.”

IV. Task 3: Retell the passage

The end result of collecting accounting information is the preparation of financial statements, which allow people inside and outside the company to see its financial position at a glance. These statements summarize the operating information. One key statement is the Balance Sheet, which is a status report showing a company's resources at a specific moment in time. Examples of information found on a balance sheet include how much cash the company has and what it owes to creditors.

V. Task 4: Discussion Topics

1. **What is the end result of all the accounting information?**

The text states that “the end result of all of this recording is the preparation of financial statements,” which provide summaries of an organization’s financial position.

2. **What is the whole purpose of accounting?**

The text concludes that “The whole purpose of accounting is to provide information that is useful and relevant for interested parties when making decisions regarding the company and its operations”.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The passage argues against the idea of using accounting as a tool to promote financial stability by smoothing out economic cycles. The author contends that accounting's proper role is to be a neutral measurement system that provides useful information to investors, not to manipulate data to create a false impression of stability. Doing so would be similar to adjusting unemployment or housing price statistics, which would be an “unattractive prospect with Orwellian implications”. The author concludes that while accounting standards can always be improved, there are more appropriate tools than accounting to manage the volatility of economic cycles.

II. Task 2: Paraphrasing statements

1. It is not certain that accounting can be used as a public policy instrument to reduce the extremes of booms and busts, nor is it certain that it would be proper to use it in that manner.
2. An increasingly popular and dangerous argument is that accounting's main function should be to ensure financial stability, rather than its traditional purpose of providing investors with useful information for making decisions.
3. For this reason, any calls to alter accounting measures to make them less reflective of economic cycles should be viewed with skepticism.
4. Therefore, it is not fair to expect that the organizations that set accounting and statistical standards should have to predict how people will react to data—much less decide if those reactions are “good”—when they are choosing their measurement methods.
5. However, it would be very difficult, and perhaps impossible, to convince investors to

provide funding to financial institutions if they are not shown the true, unaltered financial numbers.

III. Task 3: True or False

1. **True.**
2. **False.** The passage states that accounting “presents the financial performance and position of a company in as neutral a way as possible.”
3. **False.** The passage states that the way people will react “is not easy to determine in advance.”
4. **False.** The author states, “This is not to say that current accounting standards need no improvement.”
5. **True.**

IV. Task 4: Discussion Questions

1. **What is the role of accounting?**
According to the passage, the traditional and proper role of accounting is to act as a neutral measurement system that provides information useful to investors in their decision-making. The author argues that its role is *not* to be a public policy tool used to promote financial stability.
2. **Talk about the influence of high/low unemployment number on consumers’ behaviors.**
The passage uses this as an analogy to argue against manipulating accounting data. It states that “Low unemployment numbers make consumers feel confident, thus encouraging them to borrow and spend at levels which might prove unsustainable.” Conversely, “High unemployment numbers make consumers worried, causing them to reduce their spending and pay off debts, with the undesirable consequence of even greater unemployment” .

Unit 9 Loans

Background Reading Questions

1. **What were the early forms of business loans used for?**
Early business loans in ancient Greece were used to finance the shipping of freight, as well as for mining and the construction of public buildings.
2. **What was the difference between the bank of the “American Banker” and other banks of the time?**
The “American Banker,” A.P. Giannini, founded the Bank of Italy in 1904, which was different from other banks of that era . While most banks at the time would only lend money to the wealthy, Giannini’s bank gave hardworking immigrants the opportunity to borrow money to open businesses and buy homes.
3. **How did the Small Business Investment Company Program in American history work?**
Established by the Investment Company Act of 1958, the program enabled the U.S. government to regulate and provide funds to privately owned venture capital firms. These private firms, in turn, used the funds to provide loans to high-risk small businesses.
4. **What do you think are the basic foundations of the loan business?**

Based on the text, the basic foundation of the loan business is the provision of capital to enable enterprise and economic activity. The reading concludes that throughout history, merchants, bankers, and governments have been “keeping the entrepreneur’s dreams alive by allowing them to borrow capital based upon an idea, service, or product”.

Issues

Fill in the blanks

1. post-secondary-education
2. local banks
3. market interest rates
4. student-loan coverage
5. repayment periods
6. repayment defaults
7. repay the loan

Discussion Questions

- **What is the General-Commercial Student Loans Scheme?**

The General-Commercial Student Loans Scheme (GCSLS) is a program for post-secondary students over 18 years old in China . Under this scheme, students can borrow a guaranteed loan of 2,000-20,000 Yuan from a local bank. The loans have market-based interest rates without government subsidies and are intended to expand student loan coverage.

- **What are the advantages of getting a General-Commercial Student Loan?**

The GCSLS has three main advantages:

- Local banks are familiar with the students’ family situations, making it easier to contact them and reducing the banks’ worry about repayment defaults.
- Students in need can apply for loans that fit their specific financial requirements.
- The repayment periods are flexible, giving students more time to repay their loans and helping them to avoid defaulting.

- **Work in groups and talk about the working mechanism of the General-Commercial Student Loans Scheme.**

The GCSLS is designed for students over 18 in higher education. A student applies for a guaranteed loan from a commercial bank in their family’s local area. The loan amount ranges from 2,000 to 20,000 Yuan. The interest rate is a market rate with no government subsidy, and the repayment period is flexible according to the specific bank’s regulations.

- **Make a discussion in class on the topic of the increasing default rate of student loans in our country.**

- Open question.

- The provided texts do not contain specific data on the default rate of student loans. However, the design of the General-Commercial Student Loans Scheme highlights that default is a major concern. The scheme’s advantages, such as using local banks that know the families and offering flexible repayment periods, are specifically aimed at reducing the risk of default and “avoiding default”. This suggests that policymakers consider default a significant problem to be addressed in the structure of loan programs.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What are loans? How does a loan work?**

A bank loan is money received from a commercial lender for a specific purpose and duration, which is paid back with interest. The process begins with a customer submitting a loan application, which the bank then underwrites by reviewing the applicant's financial information and credit rating. If approved, the bank provides the funds, and the borrower repays the principal plus interest over the term of the loan.

2. **How many types of loans are you familiar with? Name some of them and describe their features.**

The passage lists several common types of bank loans, including car loans, home loans, credit cards, student loans, business loans, and personal loans. They can be categorized by their features:

- **Secured (Collateral) Loans:** These are backed by an asset, such as a car or a home, which the bank can repossess if the borrower defaults.
- **Unsecured Loans:** These have no collateral attached. Examples include credit cards and student loans.
- **Fixed vs. Adjustable Rate Loans:** Loans can have a fixed interest rate for the entire term or an adjustable rate that changes at predetermined intervals.

3. **Do you think it is easy to get a loan? And why?**

The text suggests that getting a loan is a formal process that is not always easy. An applicant must fill out an application, which then goes through an underwriting process where the bank investigates the customer's credit rating. The decision to grant the loan and the interest rate offered depend heavily on the applicant's credit score. A low score can result in a higher interest rate or denial of the loan.

II. Task 1: Multiple Choice

1. **C.** more than 40 percent
2. **B.** higher; lower
3. **A.** low, fixed
4. **D.** Home mortgage.
5. **C.** damage the customer's credit rating

III. Task 2: Fill in the blanks

The first step in attaining a bank loan is for a bank customer to fill out a loan **application**. The application will include personal information, financial information and questions about the purpose of the loan. Once **submitted**, the application will go into **underwriting**, where the bank will make a decision on whether or not to loan the money and at what rate of interest. The bank will **investigate** the customer's credit rating. If it is acceptable, the bank will issue the loan with an interest rate **corresponding** to the customer's credit score.

IV. Task 3: Retell the passage

A bank loan is money borrowed from a commercial lender that is repaid with interest over a set

period. Bank loans are vital to the U.S. economy, providing capital for businesses to start and expand, enabling home ownership, and driving retail sales through credit cards. The loan process involves an application, underwriting, and a credit check to determine the interest rate. Loans can be secured with collateral, like a car or a house, or unsecured, like a credit card. Borrowers should consider the total cost of a loan before applying and must be aware that defaulting can lead to foreclosure or repossession and lasting damage to their credit rating.

V. Task 4: Discussion Topics

1. **How many types of loans are introduced in this passage? What is the difference between collateral loan and unsecured loan?**

The passage introduces car loans, home loans, credit cards, student loans, business loans, and personal loans. The primary difference explained is between secured (collateral) and unsecured loans. A collateral loan is backed by a specific asset (like a car or home) that the bank can repossess if the borrower fails to pay. An unsecured loan has no such asset attached as security, so the bank's main recourse in case of default is to damage the customer's credit rating.

2. **What is the process of getting a bank loan? What do borrowers need to pay attention to when applying for a bank loan?**

The process of getting a bank loan involves three main steps:

- The customer fills out a loan application with personal and financial details.
- The application goes into underwriting, where the bank investigates the applicant's credit history and score.
- If the credit is acceptable, the bank issues the loan with an interest rate corresponding to the credit score.

When applying, borrowers should pay close attention to the total cost of the loan (principal plus all interest payments) and realistically assess their ability to make payments. They need to understand that failing to repay can result in losing their property (foreclosure or repossession) and severely damaging their credit report for up to ten years.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

With federal student loan interest rates about to rise, graduating students are being urged to consolidate their loans to lock in a lower long-term fixed rate. Experts believe rates are unlikely to drop significantly in the near future, making consolidation a potentially smart bet. However, the decision is not one-size-fits-all. While consolidation can offer lower payments by extending the repayment term up to 30 years, this may result in paying more total interest over time. The hassle is often not worthwhile for those with small debts. Students should also compare lender benefits, such as interest rate reductions for on-time payments, and consider their post-graduation salary to ensure their repayment plan is manageable.

II. Task 2: Paraphrasing statements

1. Students with loans are receiving a large number of letters and emails advising them to combine their debts into a single loan.
2. Based on historical trends, it is improbable that interest rates will fall back to the very low

levels of the last few years anytime soon.

3. Many private banks that offer loan consolidation are actively seeking business from our students, and they typically neglect to mention a specific benefit that our university provides.
4. According to a survey by Alliance Bernstein Investments, the typical student graduates from college with \$30,000 of debt from loans.
5. For students who owe a relatively small amount of money, the trouble and potential confusion of consolidating their loans often outweigh the benefits.

III. Task 3: True or False

1. **False.** The passage explicitly states that consolidation “may not be the right decision for everyone”.
2. **False.** The passage states that interest rates for Stafford loans will rise from 4.75% to 6.54%; the 6.14% to 7.94% increase applies to PLUS loans.
3. **True.**
4. **False.** The passage mentions “Direct Loan schools” that receive their funding from the U.S. Department of Education, a government source.
5. **True.**

IV. Task 4: Discussion Questions

1. **What is the relationship between interest rate change and the decision of consolidating loans?**

The decision to consolidate a student loan is directly related to the expectation of future interest rate changes. Consolidation allows a borrower to lock in a long-term fixed rate. Therefore, if current variable rates are low but are expected to rise, as described in the passage, consolidating becomes an attractive option to secure the current lower rate for the future. It is essentially a “bet on the direction of interest rates”.

2. **What should the student borrowers pay attention to when they are making the decision of consolidating their loans?**

Student borrowers should pay attention to several factors:

- **Lender Benefits:** Compare the benefits offered by different lenders, as some provide valuable rebates, such as a quarter-percentage point rate reduction for direct debit payments or a 1% reduction for a history of on-time payments.
- **Total Interest Paid:** Be aware that extending the loan term to get smaller monthly payments can mean paying significantly more in interest over the life of the loan.
- **Amount of Debt:** If the total debt is relatively small, the “hassle and confusion” of consolidation may not be worth it.
- **Future Income:** Consider their expected starting salary and follow the rule of thumb that monthly loan repayments should not exceed 10% to 15% of monthly income.
- **University-Specific Benefits:** Check if their university is a “Direct Loan school,” as it may offer upfront interest rebates that private lenders do not mention.

Unit 10 International Settlement

Background Reading Questions

1. **What are the purposes for the establishment of BIS?**

The Bank for International Settlements (BIS) was originally established after World War I to facilitate Germany's reparations payments. After World War II, it reinvented itself with a new purpose: to act as a central bank for the world's central bankers. Its current main purpose is to make the monetary policies of its member nations more transparent and predictable, with the primary goal of avoiding large fluctuations in exchange rates.

2. **What are the functions of BIS?**

The BIS performs several key functions:

- It helps member nations coordinate their monetary policies.
- It promotes transparency among central banks to ensure they pursue realistic monetary goals.
- In recent years, it has played an important role in coordinating banking policy and rules among member nations to make international business more practical.
- It acts as a bank for central banks, allowing them to exchange currency, holding their deposits, and issuing loans to them when necessary.

3. **How does the role of BIS change with the time?**

The role of the BIS has evolved significantly over time.

- **Original Role:** Its first purpose was to manage Germany's post-WWI reparations payments.
- **Post-WWII Role:** After this original purpose became obsolete, it was reinvented to serve as a forum for the world's central banks to coordinate monetary policy.
- **Modern Role:** As the global economy has become more integrated, its role has expanded further to include coordinating international banking rules and policies.

Issues

Fill in the blanks

1. the losses they have suffered from the interest rates in all the major financing currencies
2. as a service to establish customers
3. entering into hedging arrangements to minimize foreign exchange risk
4. raise financing on a voluntary basis
5. recourse to any previous holder of the bills or notes
6. Represent the deferred portion of the payments due under the relevant supply contract

Discussion Questions

• **What is the meaning of the term “without recourse”?**

The term “without recourse” means that the person who buys a debt instrument (the forfaiter) assumes all the risk of non-payment. If the original debtor (the importer) fails to pay, the forfaiter cannot go back to the original holder of the debt (the exporter) to demand the money.

• **If an exporter wishes to trade in terms of forfeiting, what does the exporter do?**

The exporter, who holds bills of exchange or promissory notes from an importer

representing a future payment, sells these instruments to a forfaiter (a bank or financial institution). This allows the exporter to receive cash immediately at a discount, rather than waiting for the future payment date.

- **Try to describe the typical forfaiting transaction.**

A typical forfaiting transaction involves an exporter selling goods to an importer and receiving a bill of exchange or promissory note for payment at a future date. The exporter then sells this note to a forfaiter “without recourse”. The forfaiter pays the exporter a discounted cash amount immediately. The forfaiter now owns the debt and collects the full payment from the importer when the note matures, bearing all the risk of the importer’s potential default.

- **Hold a debate on this issue: What are the legal issues might be involved in forfaiting?**

Based on the text, potential legal issues in forfaiting could include:

- **Enforceability of Debt Instruments:** The legal validity of the underlying bills of exchange or promissory notes in the importer’s home country.
- **“Without Recourse” Clause:** The legal interpretation and enforcement of the “without recourse” provision, especially in cross-border disputes.
- **Sovereign and Political Risk:** The text mentions that forfaiting is used for countries that are “unable to raise financing on a voluntary basis,” which implies a higher risk of legal or political interference with the repayment of debt.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What’s your idea about international settlement? By what means is it conducted?**

International settlement refers to the financial activities between different countries where funds are transferred to settle debts, claims, and other accounts. It is primarily conducted through banks using three main methods: remittance, collection, and letter of credit.

2. **Can you distinguish remittance, collection and letter of credit? How do they conduct respectively? What are the primary parties involved?**

- **Remittance:** A simple transfer of funds where a bank, at the request of a **remitter**, sends money to a **payee** in another country.
- **Collection:** An **exporter** (principal) gives shipping documents and a bill of exchange to their bank (remitting bank) to collect payment from the **importer** (drawer) via their bank (collecting bank).
- **Letter of Credit (L/C):** A bank (issuing bank) provides a conditional guarantee of payment to a **seller** (beneficiary) on behalf of a **buyer** (applicant). The bank pays once the seller presents documents that comply with the L/C’s terms. It is based on the bank’s credit, not the buyer’s.

3. **Which do you think is the most popular and important means? Why?**

The passage states that “Letters of credit are a major instrument in international trade”. This is because an L/C offers “Certainty of payment independent of claims and actions,” as it is an undertaking by the issuing bank to pay, which helps promote international trade by guaranteeing the proceeds for the seller.

II. Task 1: Multiple Choice

1. **A.** Remittance
2. **C.** letter of credit
3. **B.** the issuing bank
4. **A.** The account party
5. **A.** Letter of credit is independent of the contract.

III. Task 2: Fill in the blanks

Certainty of payment independent of claims and actions are a **core** element of the commercial utility of letters of credit. It is made on banker's credit. The issuing bank **undertakes** the primary responsibility for payment. But the payment will be performed on certain term. It promotes the development of international trade by **guaranteeing** the proceeds as well as the documents and offering financial facilities to both sides. A Letter of Credit means a conditional undertaking of payment by a bank. That is to say, it is a written undertaking issued by a bank (the issuing bank) to the seller (the beneficiary) at the request and in accordance with the instructions of the buyer (the applicant) to **effect** payment (that is, by making a payment, or by accepting or negotiating bills of exchange) up to a stated sum of money, within a **prescribed** time limit and against stipulated documents complying with the terms and conditions of the Credit.

IV. Task 3: Retell the passage

International settlement is the process of transferring funds between countries to settle payments for trade and other financial activities. This is typically done through banks using three main methods: remittance, collection, and letter of credit. Remittance is a direct transfer of funds. Collection involves an exporter using banks as intermediaries to collect payment from an importer after shipping goods. The most important instrument is the letter of credit, where an issuing bank guarantees payment to the exporter on behalf of the importer, provided that stipulated documents are presented. An L/C operates on the principles of independence and abstraction, meaning it is a separate contract from the sales agreement and payment depends only on complying with the credit's terms.

V. Task 4: Discussion Topics

1. **What are the parties to a collection? What are the procedures in a collection?**
 - **Parties:** The primary parties are the exporter (principal), the importer (drawer), the exporter's bank (remitting bank), and the importer's bank (collecting bank).
 - **Procedures:** 1) The exporter ships the goods. 2) The exporter submits the documents (like a bill of exchange) to the remitting bank with a collection order. 3) The remitting bank forwards the documents to the collecting bank. 4) The collecting bank releases the documents to the importer only after receiving payment (D/P) or acceptance of the bill of exchange (D/A). 5) The collecting bank then transfers the funds to the remitting bank for the exporter.
2. **How many parties are involved in an L/C? What are the procedures in handling an L/C?**
 - **Parties:** The main parties are the buyer (applicant), the seller (beneficiary), the bank that issues the L/C (issuing bank), and the bank that advises the seller (advising bank).

- **Procedures:** The process generally involves: 1) The importer and exporter agree to use an L/C in their contract. 2) The importer applies for the L/C from an issuing bank. 3) The issuing bank sends the L/C to an advising bank in the exporter's country. 4) The advising bank authenticates the L/C and informs the exporter. 5) The exporter ships the goods. 6) The exporter presents the required documents to the advising/negotiating bank. 7) If the documents comply, the bank pays the exporter and arranges settlement with the issuing bank.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The Bank for International Settlements (BIS), the world's oldest financial institution, was formed by the G-10 countries to strengthen international monetary and financial cooperation. It serves as a bank for central banks, a center for economic research, and a trustee that promotes international norms like uniform capital requirements. Headquartered in Basel, Switzerland, the BIS provides financial services exclusively to central banks to help them manage foreign reserves. While it has no legislative power, its recommendations, such as the Basel Accords, are highly influential. In the 1990s, the Basel committee began updating its capital accord to include requirements for market risk, which led to the creation of a third tier of capital for banks.

II. Task 2: Paraphrasing statements

1. This body strengthens global monetary and financial relationships and functions as a bank for the world's central banks.
2. The BIS does, however, allow national authorities some flexibility in how they implement its recommendations, since laws differ from one country to another.
3. These new capital rules for a bank's market risk were scheduled to be included in future versions of Europe's Capital Adequacy Derivatives (CAD) framework.
4. Under this new rule, banks had to maintain a trading book and hold capital specifically for the market risk of that book and for their foreign exchange positions.
5. This new rule introduced a "Tier 3" category to the formal definition of a bank's capital.

III. Task 3: True or False

1. **True.**
2. **True.**
3. **False.**
4. **False** (The passage refers to updating the **1988** accord, not a 1998 accord).
5. **True.**

IV. Task 4: Discussion Questions

1. **What are the main activities of BIS? What's the relationship between BIS and the central banks.**
 - **Main Activities:** The BIS serves as a forum for central banks to discuss policy, it conducts economic and financial research, it provides financial services to central banks to help them manage their reserves, and it acts as a trustee in setting international financial norms, such as capital requirements .

- **Relationship:** The BIS is often called the “central bank for central banks”. It does not serve private individuals or corporations. Its entire purpose is to foster cooperation among central banks and provide them with banking and research services to promote global financial and monetary stability.
2. **Talk about Basel Capital Accord. List some of its weak and strong points.**
- **Strong Points:** A major strength of the Basel Accords is that they promote “uniform capital requirements,” which allows banks from different countries to compete on a “level playing field”. The accord was also updated to be more comprehensive by including requirements for banks to hold capital against market risk, not just credit risk.
 - **Weak Points:** The passage notes that an attempt by the Basel committee to create a joint accord with the International Organization of Securities Commissions (IOSCO) to harmonize rules for both banks and securities firms failed, indicating a weakness in achieving broader global consensus. Additionally, the text mentions that the value-at-risk (VaR) model introduced in an amendment had “its own shortcomings,” though it does not specify what they were.

Unit 11 Banking Management

Background Reading Questions

1. **What are the major sources of funds for a commercial bank?**
The “Background Reading” section focuses on the challenges Chinese banks face in attracting funds. The major sources it describes are traditional deposit accounts and, increasingly, wealth management products, which are used as an alternative to retain customers seeking better returns.
2. **Why would a bank wish to increase its capital after operations had begun and its initial capital requirements were met?**
While the “Background Reading” does not directly answer this, the “Issues” section in the transcript explains the importance of bank capital. A bank would wish to increase its capital to strengthen its financial position because capital helps prevent bank failure by serving as a “large cushion to absorb losses”. Increasing capital beyond the initial minimum requirements provides a greater buffer against unexpected losses and enhances the bank’s stability.
3. **Describe the similarities and distinctions between managing a bank and a corporation.**
The provided texts do not offer a direct comparison between managing a bank and a general corporation. However, the “Issues” transcript outlines the four primary concerns of bank management: liquidity management, asset management, liability management, and capital adequacy management. While general corporations also manage assets and liabilities, the management of liquidity (ensuring enough ready cash to pay depositors) and capital adequacy (meeting regulatory requirements to prevent failure and absorb losses) are particularly critical and defining aspects of bank management.
4. **How can risks be managed in banking industry?**
According to “Passage 1” in the transcript, risks in the banking industry can be managed through a three-part strategy:

- **Risk Avoidance:** Eliminating superfluous risks through simple business practices, such as standardizing contracts, diversifying portfolios across borrowers, and implementing incentive-compatible contracts for management .
- **Risk Transfer:** Shifting risks that can be efficiently handled by others to those parties. This can be done through interest rate products like swaps, altering borrowing terms, or selling financial claims.
- **Active Management:** Actively monitoring and managing risks that are central to the bank’s business and cannot be easily avoided or transferred, such as the credit risk inherent in lending or market risk in trading operations .

Issues

Fill in the blanks

1. how to decide the reasonable amount of excess reserves
2. has enough ready cash to pay its depositors when there are deposit outflows
3. meeting the unexpected liquidity demand with the borrowings from the sources other than the banks
4. make the adequate provisions on liquidity by holding liquid assets
5. liabilities on their balance sheets could provide them with reserves and liquidity
6. affects the returns for the owners of the banks

Discussion Questions

- **What are the three factors in the operation of commercial banks? Are they contradictory with one another?**

The text describes the three simultaneous objectives of asset management: 1) seeking the highest possible returns on loans and securities, 2) reducing risks, and 3) making adequate provisions for liquidity. These factors are often contradictory. For example, pursuing the highest returns typically involves taking on greater risk and investing in less liquid assets, which conflicts with the goals of reducing risk and maintaining liquidity.

- **In bank management, do you think equal considerations can/should be given to each concern?**

The text does not state that equal consideration must be given. It identifies liquidity, asset, liability, and capital adequacy as the four “primary concerns,” implying they all require careful management. However, the relative importance of each may shift depending on the bank’s strategy and the prevailing economic conditions.

- **Now at times of more uncertainty, which concern do you think is more important?**

In times of more uncertainty, the concerns of **liquidity management** and **capital adequacy management** would likely become more important. This is because liquidity management ensures a bank “has enough ready cash to pay its depositors when there are deposit outflows,” which is critical during a panic. Capital adequacy is also vital, as bank capital “serves as a large cushion to absorb losses” and “helps prevent the failure of banks,” both of which are heightened risks during uncertain times.

- **Hold a discussion on this issue: What measures should be taken by domestic commercial banks to deal with the threat of more foreign banks?**

Here are several measures that domestic commercial banks could take to deal with the threat

of more foreign banks, based on principles and examples found in the provided materials:

Leverage Local Knowledge and Enhance Customer Focus

Domestic banks have an inherent advantage in their deep understanding of the local market, culture, and customer base. Rather than trying to compete with foreign banks on a global scale, they can focus on their strengths.

- **Innovate for Local Needs:** As noted in the discussion on emerging markets, local banks have “displayed real ingenuity at meeting the needs of their markets”. Domestic banks should continue to develop products and services specifically tailored to the local population, something foreign banks may struggle to replicate.
- **Strengthen Relationships:** Foreign banks may focus on high-margin, transactional business. Domestic banks can differentiate themselves by building strong, long-term relationships with individual and small business clients, becoming trusted financial partners rather than just service providers.

Develop Niche and High-End Services

Foreign banks often bring global expertise in sophisticated areas. Domestic banks must respond strategically.

- **Compete in Specialized Areas:** The texts note that Western firms have advantages in “sophisticated asset management, corporate banking and business services”. Domestic banks should identify specific high-end areas where they can build competitive expertise, such as wealth management for local high-net-worth individuals or specialized trade finance for key local industries.
- **Focus on Core Strengths:** Instead of trying to be everything to everyone, domestic banks can focus on areas where they are strongest, such as retail banking or lending to small and medium-sized enterprises (SMEs), and become the undisputed leader in those segments.

3. Invest in Modern Technology

To avoid being outmaneuvered by technologically advanced foreign competitors, domestic banks must embrace digital transformation.

- **Adopt Mobile and Digital Banking:** Foreign firms can “use mobile-banking technologies to reach new customers without costly branch networks”. Domestic banks must invest in state-of-the-art digital platforms to offer a seamless and efficient customer experience that matches or exceeds global standards.
- **Form Fintech Partnerships:** Domestic banks can partner with local financial technology (fintech) companies to quickly innovate and offer new digital services.

4. Proactively “Go Out” and Expand

A strong defense can be a good offense. As emerging market banks are expanding into developed markets, domestic banks should also look for opportunities abroad.

- **Follow Domestic Clients:** As local corporations expand internationally, their domestic banks should follow them to provide continued service and prevent them from switching to a global foreign bank.
- **Strategic Acquisitions:** Following the example of the Industrial and Commercial Bank of China acquiring a U.S. bank, well-capitalized domestic banks could pursue strategic acquisitions in other markets to diversify their business and build an international presence.

Listening Practice: Passage 1

I. Warm-up Practice

1. **Besides its basic activity of borrowing and lending, what other business does a commercial bank engage in? Where does gross profit come from in the banking operation?**

Besides borrowing and lending, commercial banks engage in services that do not have direct balance sheet implications, such as agency and advisory activities like trust and investment management, and the packaging, securitizing, and servicing of loans. Gross profit is implied to come from both the interest earned on its core lending business and the fees generated from these other financial services.

2. **As a high return industry, what risk does the bank have to assume? How does the bank manage these risks respectively?**

Banks assume various financial risks, which Passage 2 categorizes into six types: systematic (market) risk, credit risk, counterparty risk, liquidity risk, operational risk, and legal risks. Passage 1 explains that these risks are managed in three ways: avoiding superfluous risks through good business practices, transferring risks to other parties through financial products, and actively managing the core risks that are essential to the bank's business.

3. **What's the objective of bank management? Apart from profit, what other factors does the bank take into consideration?**

According to Passage 2, the objective of bank management is to "maximize profits to the constraint of not going out of business". Therefore, apart from profit, the other major factor the bank must take into consideration is survival, which involves managing the various types of financial and operational risks to ensure the institution remains solvent.

II. Task 1: Multiple Choice

1. C. Risks that are not in on-balance-sheet business.
2. D. the agency and advisory activities
3. D. B or C
4. C. Both A and B.

III. Task 2: Fill in the blanks

As the risk business, risk is a central **ingredient** to the Commercial banks industry's franchise. In the process of providing financial services, they assume various kinds of financial risks. **Suffice** it to say that market participants seek the services of these financial institutions because of their ability to provide market knowledge, transaction efficiency and **funding** capability. In performing these roles they generally act as a **principal** in the transaction. As such, they use their own balance sheet to **facilitate** the transaction and to absorb the risks associated with it.

IV. Task 3: Retell the passage

The clues provided in the question for retelling Passage 1 appear to be mixed with clues about a different topic (carry trade). Based on the actual content of Passage 1, a correct retelling is as follows: Commercial banks are fundamentally in the risk business, assuming various financial risks as a

central part of providing services. They use their own balance sheets to act as a principal, facilitating transactions and absorbing the associated risks. Bank risk management can be broken into three categories. First is **risk avoidance**, where banks eliminate non-essential risks through practices like standardizing procedures and diversifying portfolios. Second is **risk transfer**, where risks like interest rate risk are shifted to other market participants through derivatives or by selling assets. Finally, some risks must be **actively managed** at the firm level, particularly complex or proprietary risks and those that are core to the bank's business purpose, such as credit risk in lending.

V. Task 4: Discussion Topics

1. **What is the role played by commercial banks in the society? What activity is most frequented by bank employees?**

Commercial banks play the role of providing market knowledge, transaction efficiency, and funding capability to market participants. They act as a principal in transactions, using their own balance sheets to facilitate them and absorb the risks. The passage centers its discussion on risk management related to the bank's "basic business of lending and borrowing," suggesting these are the most central activities.

2. **How does the interest rate reflect the economy of China? What action will the bank take when there is an inflation?** The provided documents do not contain information on this topic.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The primary objective of bank management is to maximize profits while ensuring the bank does not go out of business, which requires managing six main types of risk.

Systematic risk, like changes in interest rates, is undiversifiable but can be hedged.

Credit risk arises from a borrower defaulting and is difficult to eliminate completely.

Counterparty risk is the risk of a trading partner failing to perform.

Liquidity risk is the potential for a funding crisis where the bank cannot meet its obligations.

Operational risk is associated with processing errors and system failures, while **legal risk** stems from changes in statutes or from fraud.

II. Task 2: Paraphrasing statements

1. Because banks are so reliant on these broad economic factors, most of them try to predict how these undiversifiable risks will affect their performance and take measures to hedge against them in order to reduce their exposure.
2. Even though diversification helps reduce overall uncertainty, the unique characteristics of some of these losses remain a challenge for lenders.
3. Although some define liquidity risk as including the need to plan for business growth, it is more accurately viewed as the potential for a crisis in which the bank is unable to secure necessary funding.
4. By acknowledging liquidity risk, a bank is led to treat liquidity itself as a valuable asset and to view the task of designing a portfolio that can withstand cash shortages as a major challenge.
5. Therefore, for well-managed companies, specific operational failures are improbable

events, but they do expose the firm to potentially very costly results.

III. Task 3: True or False

1. **False.** The objective is to maximize profits “to the constraint of not going out of business,” which is a very important other factor.
2. **True.**
3. **False.** The passage states it is “difficult to eliminate completely”.
4. **True.**
5. **False.** In agency activity, these risks accrue “directly to the asset holder”.

IV. Task 4: Discussion Questions

1. **How does a bank control its credit risks with respect to consumer and commercial loans?**

Passage 1 indicates that a key method for controlling credit risk is through the “construction of portfolios that benefit from diversification across borrowers,” which reduces the impact of any single loss. “Passage 2” adds that credit risk is “diversifiable”.

2. **When lending to small businesses rather than large businesses, what are the special risks and considerations of banks?**

The text does not directly compare lending to small versus large businesses. However, Passage 2 notes that for banks that “lend in local markets and ones that take on highly illiquid assets,” which is often characteristic of small business lending, “the credit risk is not easily transferred, and accurate estimates of loss are difficult to obtain” .

Unit 12 Financial Crisis

Background Reading Questions

1. **What is Karl Marx’s economic crisis theory? Can you explain it in your own words?**
Karl Marx’s theory of economic crisis is based on the relationship between capital and labor. In a capitalist system, workers are paid wages that are less than the total value of the goods they produce. This surplus value becomes the business’s profit. Across the whole economy, this means that the working population as a whole does not earn enough money to buy all the goods being produced. This gap, combined with competition among businesses leading to an overproduction of goods and falling prices, causes the overall rate of profit to fall, eventually leading to a crisis.
2. **What are the major differences between Karl Marx’s theory and Minsky’s theory?**
The major difference lies in their focus. Marx’s theory is rooted in the production process and class relations, arguing that crises are an inherent result of capital accumulation and the exploitation of labor. Minsky’s theory is rooted in the financial system, arguing that crises are caused by a cyclical shift in financing behavior during periods of economic stability. Firms and lenders move from safe “hedge finance” to risky “Ponzi finance,” creating a fragile financial structure that eventually collapses when a shock occurs and credit dries up. In short, Marx sees crisis as a result of production contradictions, while Minsky sees it as a result of increasing financial fragility.
3. **What do you think are the real causes of the economic crisis?**

The texts suggest that economic crises have complex causes and can be viewed through different theoretical lenses. A Marxist perspective would point to the fundamental contradictions in a capitalist system, where a falling rate of profit and underconsumption by the working class eventually lead to a crisis. A post-Keynesian perspective, like Hyman Minsky's, would emphasize financial instability, where long periods of prosperity encourage excessive risk-taking and unsustainable debt ("Ponzi finance"), making the system fragile and prone to collapse. Both theories suggest that crises are a recurring feature of the economic system.

4. **When will the crisis come to an end?**

The texts do not give a single answer for when all crises end. However, Minsky's theory describes a cycle. The crisis phase ends and the cycle closes when, during the recession, the system deleverages and firms, having lost much financing, return to the safest form of "hedge" financing. This sets the stage for a new period of stability and growth, which will eventually lead to another buildup of fragility.

Issues

Fill in the blanks

1. calling into question the future of the world's largest currency bloc
2. Asian equity markets were hit particularly hard with Japan's Nikkei index losing 17.3 per cent this year
3. Assets considered to be relative havens amid the turmoil have fared better
4. analysts and bankers expect next year to start on a glum note
5. There is more than €457bn of eurozone government debt due to be repaid in the first quarter of 2012

Discussion Questions

- **How much do you know about eurozone financial crisis? Can you give us the recent roundup of eurozone financial crisis?**

Based on the text, which provides a roundup at the end of 2011, the eurozone financial crisis had a severe global impact. It erased almost \$6.3 trillion from global stock markets that year, with global market capitalization falling by 12.1%. The euro became the worst-performing major currency, hitting a 10-year low against the yen. A major immediate test facing the eurozone in early 2012 was the need to repay over €457 billion in government debt in the first quarter, with Italy alone needing to repay almost €113 billion at a time of high funding costs.

- **What other financial or economic crisis have you heard about?**

The texts mention several other major economic crises, including:

- The global financial crisis of 2007-2009, also referred to as the "credit crunch," which was marked by the collapse of institutions like Bear Stearns.
- The Great Depression of the 1930s.
- The economic crisis caused by the COVID-19 pandemic, which led to record-shattering declines in output and spiking poverty.
- The oil crisis of 1973, which marked the beginning of a long economic cycle.

- **Work in groups and talk about the impact of eurozone economic crisis on global stock market.**

The impact of the eurozone crisis on the global stock market in 2011 was significant and negative. The crisis “reverberated across the world,” causing global stock market capitalization to drop by 12.1%. While some markets like the US’s S&P 500 were flat, European markets fell sharply, with the Eurofirst 300 losing 11%. Emerging markets were also heavily affected, with the MSCI Emerging Markets index losing a fifth of its value. Asian markets were “hit particularly hard,” with stock indexes in Japan, Hong Kong, and Shanghai falling by 17.3%, 20%, and 22% respectively.

- **Hold a debate on this issue: is it reasonable for China to rescue the European countries trapped in sovereign debt crisis?**

Open question. Students may be asked to search for relevant information and form their own points of view.

Listening Practice: Passage 1

I. Warm-up Practice

1. **Do you know why Bear Stearns and Lehman Brothers went bankruptcy? What was the impact of their failure on the whole economy of the United States?**

According to the text, the key reason for their failure was excessive leverage. Bear Stearns, for example, had a leverage ratio of 36, supporting \$395 billion in assets with only about \$11 billion of tangible equity capital. This “reckless financing” made the firm highly profitable in good times but left it “bereft of capital and willing creditors” when the market turned. The impact of Bear Stearns’ collapse was that it marked the beginning of the “epic stage of the credit crunch”.

2. **Are markets always effective? What role should the government play in financial market?**

The passage argues that markets are not always efficient, stating that the belief in free markets has an “uncanny ability to resurrect itself” despite evidence to the contrary. The suggested role for the government is multifaceted: it should implement stricter supervision and impose “pollution taxes” on big banks to reduce the likelihood and cost of blow-ups. During a crisis, the central bank should act as a lender of last resort, and the government should boost economic demand.

3. **What lessons shall we draw from the global financial crisis which burst out in 2007-2008? What actions should be taken to avoid it happening again?**

The passage outlines several lessons and corresponding actions:

- **Lesson:** High leverage is deadly.
Action: Impose higher capital ratios on banks.
- **Lesson:** Any institution that borrows short-term and invests long-term is effectively a bank and is vulnerable to runs.
Action: Regulators should treat all such institutions as banks to prevent regulatory arbitrage.
- **Lesson:** Big banks are systemically important but dangerous, like nuclear power stations.
Action: Implement stricter supervision and institution-specific “pollution taxes”

to cover the costs of clean-ups.

- **Lesson:** Statistical “value-at-risk” models are unreliable and fail when they are most needed.

II. Task 1: Multiple Choice

1. **B.** He intended to tell the chief executive that the government would let the bank go bankrupt.
2. **B.** For several years, it has enabled the bank to achieve a profit margin of about a third and a return on equity of 20 per cent.
3. **D.** The regulators should treat the other financial institutions alike as banks, because they were also vulnerable to a run by creditors.
4. **C.** Because if big banks collapse, it will spread the damage to the rest of the economy as the blow-up of nuclear power stations will destroy the environment.
5. **D.** Stockbrokers.

III. Task 2: Fill in the blanks

Big banks are like nuclear power stations. They provide valuable services, such as **channeling** capital from savers to entrepreneurs. Occasionally, they blow up, causing damage to the rest of the economy and **necessitating** spending vast sums of taxpayers’ money on clean-up operations. In retrospect, the solutions to this problem are obvious: stricter **supervision** to reduce the probability of blow-ups and institution-specific “pollution taxes” to cover their cost. President Barack Obama recently proposed such a tax, and Gordon Brown has taken it upon himself to transform this proposal into a global **initiative**. For once, a good idea appears to be making progress. Somewhere in the heavens, Arthur Cecil Pigou, the economist who invented the concept of **negative externalities**, must be smiling.

IV. Task 3: Retell the passage

The collapse of Bear Stearns two years ago marked the start of the credit crunch’s most intense phase and taught several costly lessons. The first is that extreme leverage, while profitable in good times, is fatal when markets turn. This has led to calls for higher capital ratios. Another lesson is that any institution that borrows short and lends long—regardless of whether it’s called an investment company or an insurer—is vulnerable to a run by creditors and should be regulated like a bank to avoid regulatory arbitrage. The crisis also showed that big banks are like nuclear power stations: they provide valuable services but can blow up, causing immense damage that requires taxpayer-funded cleanups, making stricter supervision and “pollution taxes” necessary. Other lessons include the unreliability of statistical models and the importance of central bank and government intervention during crises to prevent a recession from turning into a depression. Finally, the crisis revealed that much of the financial industry’s profit comes from rent-seeking, not genuine wealth creation.

V. Task 4: Discussion Topics

1. **What is rent-seeking? Can you think of any examples? What are the negative impacts on economy?**
 - **Definition:** Rent-seeking is when a company or individual uses resources to obtain

an economic gain from others without creating any new wealth for society.

- **Examples from the text:** The passage gives examples of financial companies diverting economic rents from investors in actively managed funds, from workers in companies taken over by private equity groups, and from taxpayers who bear the costs of excessive risk-taking.
- **Negative Impacts:** The negative impact is that it is not genuine wealth creation. The passage notes that the losses UK banks suffered in 2008-2009 wiped out about half of the supposed economic value (wages and profits) that the sector had generated between 2001 and 2007, showing that the prior “profits” were illusory and unsustainable.

2. **What are the differences and similarities between the crisis happened in 2008 and the 1997 Asian financial crisis?**

Similarities:

- **Credit Booms and Asset Bubbles:** Both crises were preceded by periods of rapid credit expansion and significant asset bubbles. The 1997 crisis saw bubbles in real estate and stock markets in Southeast Asia fueled by foreign capital, while the 2008 crisis was driven by a housing bubble in the United States fueled by subprime mortgage lending.
- **Financial Contagion:** Both crises spread beyond their initial locations. The 1997 crisis began in Thailand and quickly spread to other Asian economies like Indonesia, South Korea, and Malaysia. The 2008 crisis, which started in the U.S. subprime market, rapidly spread to the entire global financial system.
- **Role of International Institutions:** In both events, international financial institutions, particularly the International Monetary Fund (IMF), played a major role in providing bailout packages to affected countries and institutions, often with controversial policy conditions attached.

Differences:

- **Origin of the Crisis:** This is the most significant difference. The **1997 crisis originated in emerging markets** (Southeast Asia) and was largely a currency and sovereign debt crisis. In contrast, the **2008 crisis originated in the developed world** (United States) at the core of the global financial system.
- **Nature of the Crisis:**
 - The **1997 crisis** was primarily a **currency and balance of payments crisis**. It was triggered by the rapid withdrawal of foreign investment, which caused local currencies that were pegged to the U.S. dollar to collapse.
 - The **2008 crisis** was primarily a **banking and credit crisis**. It was caused by the collapse of complex financial instruments (like mortgage-backed securities) and a subsequent freeze in the interbank lending market due to a loss of trust.
- **Global Impact:** While the 1997 crisis had severe regional consequences and some global spillover effects, the **2008 crisis had a much deeper and more widespread global impact**. Because it originated in the world’s largest economy and crippled the global banking system, it led to a severe global recession often called the "Great Recession."

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The passage describes a “quiet financial crisis” brewing as a result of the COVID-19 pandemic. Unlike dramatic crises with “Lehman moments,” this one involves a slow but significant deterioration of asset quality on financial institutions’ balance sheets as persistent economic downturns cause a rise in non-performing loans (NPLs). Government policies like loan moratoria and relaxed banking regulations have provided temporary relief but have also likely caused the extent of NPLs to be understated. This hidden fragility, combined with high corporate debt and potential sovereign downgrades, could jeopardize the economic recovery for years by causing a prolonged credit crunch. The author argues that the first step to avoiding a delayed recovery is to recognize the scale of the bad debt problem and restructure it quickly, rather than channeling funds to “zombie loans”.

II. Task 2: Paraphrasing statements

1. The quality of financial assets can worsen considerably during extended economic slumps, particularly when businesses and families are heavily in debt.
2. A credit shortage also has unequal social consequences, as it impacts smaller businesses and poorer households more severely.
3. Since the pandemic began, governments have used policies that increase money supply and public spending to counteract the sharp economic decline resulting from widespread lockdowns and social distancing.
4. The consequence of these regulatory changes is that the true amount of non-performing loans is probably being underreported at present, and for many nations, the discrepancy is likely substantial.
5. The initial move in addressing financial instability is to acknowledge the size and scope of the issue, and then to promptly reorganize and write off the bad debts.

III. Task 3: True or False

1. **False.** The passage states that even these quiet crises “still impose multiple costs,” such as expensive bank restructuring and depressed lending.
2. **True.**
3. **True.**
4. **False.** The passage states that many countries have “relaxed their banking regulations” regarding bad-loan provisioning.
5. **False.** The passage says that “advanced economies have not been spared” from sovereign credit downgrades.

IV. Task 4: Discussion Questions

1. **Talk about how emerging economies should take advantage of the financial crisis to gain more say in forming world economic orders.**

There are several ways in which emerging economies can leverage a financial crisis that originates in the developed world to gain more influence in the global economic order:

- **Demonstrate Economic Resilience:** When a crisis hits developed economies, emerging markets can gain influence by demonstrating the relative strength and

stability of their own financial systems. For example, after the 2008 financial crisis, while “many Western financial firms are still shoring up their operations... their emerging market rivals have hardly skipped a beat”. This resilience showcases their growing importance to global economic stability and gives them a stronger platform to voice their perspectives.

- **Engage in Strategic Global Expansion:** A crisis in the West can weaken its financial institutions, creating opportunities for well-capitalized emerging market firms to expand their global footprint. By acquiring assets in developed countries, emerging economies can increase their influence. The texts provide a clear example of this strategy, noting the Chinese government's policy of urging its banks to “‘go out’ into the world,” which led to the Industrial and Commercial Bank of China acquiring a majority stake in a US bank. This expansion is logical, as the “world’s three largest banks today are Chinese”.
- **Leverage Financial Clout:** By maintaining strong economic growth and building up the world's largest financial institutions, emerging economies can shift the center of global economic gravity. Their financial strength makes their participation and agreement essential for any new international financial architecture, thereby giving them more say in how future global economic orders are formed.

2. **Do you think that we are on the verge of another financial crisis? Give your reasons.**

Yes, the author of Passage 2 argues that a “quieter crisis is gaining momentum”. The reasons given are:

- **Rising NPLs:** A marked rise in non-performing loans (NPLs) is expected due to the COVID-19 economic downturn.
- **Hidden Problems:** The true extent of these bad loans is likely understated because of temporary loan moratoria and relaxed banking regulations, which have hidden the financial distress of firms and households.
- **High Debt Levels:** Many corporations, particularly in the US and China, were already highly indebted before the pandemic, which will amplify the balance-sheet problems.
- **End of Stimulus:** Grace periods for loans are set to end, and further fiscal and monetary stimulus is unlikely to match the scale seen in early 2020, which means the true solvency of many firms will be tested.

These factors combined could lead to a long period of deleveraging and a sluggish recovery, which constitutes a “quiet” but damaging financial crisis.

Unit 13 Anti-Money Laundering

Background Reading Questions

1. **According to your understanding of the article, what is money laundering?**

Money laundering is the process of concealing the source of illegally obtained money. It typically involves three steps:

placement (introducing the cash into the financial system), **layering** (conducting complex

financial transactions to hide the illegal source), and **integration** (acquiring wealth generated from the illicit funds).

2. **Against what background did the FATF come into being, and what are the major functions of it?**

The “Background Reading” identifies the Financial Action Task Force (FATF) as an intergovernmental body established to combat money laundering. “Passage 2” adds that it is the “leading intergovernmental body combating terrorist financing and money-laundering”. One of its functions mentioned in the text was to publish a blacklist of so-called non-cooperative territories to help companies identify high-risk jurisdictions.

3. **What are the major methods used by money launderers, and which one do you think can cause more harm to the economic order than the other methods?**

The text lists several major methods of money laundering:

- Structuring (or “smurfing”)
- Bulk cash smuggling
- Using cash-intensive businesses
- Trade-based laundering (under- or over-valuing invoices)
- Using shell companies and trusts to hide ownership
- Bank capture (buying a controlling interest in a bank)
- Using casinos to claim illicit funds as winnings
- Manipulating real estate transactions

Of these, **bank capture** could be argued to cause the most harm to the economic order. This method involves criminals buying a controlling interest in a bank, allowing them to “move money through the bank without scrutiny”. This directly corrupts a financial institution, undermining its integrity and potentially the stability of the financial system it is part of.

4. **What other forms of money laundering do you know or have heard about?**

The text provides a comprehensive list of money laundering methods, including structuring (breaking cash into small deposits), bulk cash smuggling, using cash-intensive businesses, overpurchasing, trade-based laundering, using shell companies, bank capture, using casinos, manipulating real estate deals, and paying “black salaries” .

Issues

Fill in the blanks

1. the Vatican will promise to adhere to European rules that are targeting money laundering
2. join “the fight against money laundering and terrorism financing”
3. The lists are compiled by bodies including the Organisation for Economic Co-operation and Development and the Financial Action Task Force
4. Both men have denied any wrongdoing

Discussion Questions

- **How much do you know about the international norms on money laundering?**
The text indicates that there are established international norms and European rules designed to combat money laundering. Compliance with these norms is monitored by international bodies such as the Organisation for Economic Co-operation and Development

(OECD) and the Financial Action Task Force (FATF), which compile lists of jurisdictions that are deemed compliant.

- **Why would Vatican establish a new authority to combat money laundering?**

The Vatican is establishing a new Financial Information Authority for two main reasons. First, it “seeks the blessing of international regulators” and “covets inclusion on lists of countries compliant with international norms,” which it has so far been excluded from. Second, the move comes shortly after its top two bank officials were investigated for a suspected breach of anti-money laundering norms, resulting in the seizure of €23 million in funds.

- **Work in groups and talk about the significance of small countries in fighting against money laundering.**

While the text doesn't directly state their significance, it provides examples that highlight their importance. Tiny states can be exploited as links in the money laundering chain. The text mentions the Vatican (a tiny state) facing scrutiny and another case involving a company registered in “the tiny Pacific island of Niue”. This implies that for the global fight against money laundering to be effective, it is significant that small countries and offshore jurisdictions participate and adhere to international standards to prevent loopholes that criminals can exploit.

- **Hold a debate on this issue: will tiny state like Vatican succeed in combating money laundering with own efforts?**

Arguments based on the text can be made for both sides:

- **Argument for success:** A tiny state can succeed if it shows strong commitment. The Vatican is taking decisive steps by establishing a new authority, promising to adhere to European rules, and applying these rules to all its government bodies, including the Vatican Bank. This internal resolve is a key factor for success.
- **Argument against success alone:** Money laundering is a global problem that requires international cooperation. The text states that it is a challenge that “requires a concerted global response” and an “unprecedented level of cooperation”. The fact that the Vatican's goal is to be included on international compliance lists shows that its own efforts are part of a larger need to integrate into the global anti-money laundering framework, suggesting a state cannot succeed entirely on its own.
- Students may be asked to search for more information to support their arguments.

Listening Practice: Passage 1

I. Warm-up Practice

1. **How much do you know about “money laundering”, does it have anything to do with the real laundry? Find out the background information about how the word was coined.**

The term **money laundering** is a metaphor that directly relates to the concept of real laundry. The idea is that money obtained from illegal activities is considered “dirty,” and the process of laundering it is to “wash” the money so it appears to come from a legitimate or “clean” source.

The most widely cited origin of the term is associated with the American gangster **Al Capone** during the Prohibition era in the 1920s. To legitimize the enormous amounts of cash he made from illegal activities, he allegedly purchased a series of cash-intensive businesses, most famously a chain of **launderettes** (laundromats). Because these businesses dealt almost entirely in cash, it was easy for him to mix his “dirty” money from crime with the “clean” money from the legitimate business, making all of it appear as legal profit.

2. **What’s the impact of money laundering on financial sectors, economic development, and social order?**

The passage details severe impacts across all areas:

- **Financial Sector:** It undermines the reputation and integrity of banks, can complicate risk management, and may lead to heavy fines or the withdrawal of banking licenses.
- **Economic Development:** It can erode the effectiveness of monetary policy, cause volatility in interest and exchange rates, lead to high inflation, undermine legitimate businesses, and reduce national tax revenue.
- **Social Order:** Money laundering provides criminals with the rewards for their crimes, which fuels further crime such as drug trafficking, corruption, and theft. Crime, in turn, “erodes basic individual liberties in that it threatens their rights to life and entitlement to property”.

3. **What should be done to combat money laundering?**

The passage suggests that combating money laundering should focus on ensuring that national and international agencies have the ability to “find, freeze and the forfeiture of laundered money”. This requires having appropriate national and international laws, the capacity to implement those laws, and a high level of cooperation among all stakeholders at both the national and international levels.

II. Task 1: Multiple Choice

1. **D.** New dimension to what constitutes money laundering is with respect to terrorism.
2. **C.** In Africa, the governments still have no awareness of setting up anti-money laundering regimes.
3. **A.** Counterfeit and infringement.
4. **A.** It is difficult for banks to conduct business if they lose reputation for doing business with money launders.
5. **D.** Impairing the government’s economic sovereignty.

III. Task 2: Fill in the blanks

Crime erodes basic individual liberties in that it threatens their rights to life and **entitlement to property**. The consequences of crime and money laundering are bad for business, development, and the general rule of law. Governments have therefore got real reasons for **spearheading** the combating of money laundering. Banks have also to be aware of the consequences of doing business with money launders or for unwittingly and **fraudulently** being used as conduits for money laundering. In jurisdictions where national anti money laundering laws have been **promulgated**, non complying banks and institutions have been subjected to **hefty fines** and in some instances the

banking licenses have been known to have been withdrawn.

IV. Task 3: Retell the passage

Money laundering is the process of concealing the illegal origin of money and now includes financing terrorism with clean money. It is a massive global problem, with estimates ranging from \$500 billion to \$1 trillion annually, though accurate statistics are hard to obtain, especially in regions like Africa where anti-money laundering regimes are still developing. The practice fuels serious crimes like drug trafficking and corruption by allowing criminals to legitimize their illicit proceeds. Money laundering harms everyone. It erodes individual liberties, undermines legitimate business, and destabilizes economies by affecting monetary policy and reducing tax revenue. The financial sector, especially banks, is particularly vulnerable, as involvement with money laundering can destroy their reputation and lead to severe penalties. Combating this scourge requires a concerted global response, including strong national and international laws and unprecedented cooperation to find, freeze, and forfeit laundered money.

V. Task 4: Discussion Topics

1. Why does it need worldwide efforts to combat money laundering?

Worldwide efforts are needed because money laundering is a “global problem”. Criminals can move money across borders to exploit countries with weak regulations. The passage explicitly states that the problem “requires a concerted global response” and “an unprecedented level of co-operation both at national and international levels” to be effective. International bodies like the UN and EU are important in creating the necessary international instruments to fight it.

2. Talk about China’s current situation in fighting against money laundering since the passing of the first law targeting money-laundering in 2006.

Since passing its landmark Anti-Money Laundering (AML) Law in 2006, which came into effect in 2007, China has progressively strengthened its framework to combat financial crime. The current situation can be characterized by the following key points:

- **Comprehensive Legal Framework:** A robust legal and regulatory framework has been established, with the People's Bank of China (PBOC) at its core. This framework mandates strict requirements for financial institutions regarding Customer Due Diligence (CDD), record-keeping, and the reporting of large-value and suspicious transactions to the China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC).
- **Active International Cooperation:** China is an active member of the Financial Action Task Force (FATF), the global AML standard-setter. It has undergone FATF mutual evaluations, which assess its compliance with international standards. These evaluations have acknowledged China’s progress but have also highlighted areas needing improvement, prompting further reforms.
- **Increased Enforcement:** In recent years, Chinese regulators have significantly increased enforcement efforts. They have imposed substantial fines on both domestic and foreign financial institutions for AML compliance failures, signaling a clear focus on holding banks, payment companies, and other institutions accountable.

- **Focus on New Risks:** The current AML efforts are adapting to modern challenges. There is a strong focus on tackling risks associated with the rapidly evolving fintech sector, illegal online gambling, and illicit cross-border capital flows. Authorities are also increasingly targeting upstream crimes like corruption and tax evasion as sources of laundered money.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The passage highlights the significant challenges and systemic weaknesses in the global fight against money laundering, using London as an example of a financial center at high risk. Despite internal due diligence by companies, the influx of capital from opaque sources, such as the former Soviet Union and sovereign wealth funds, poses a great danger. Efforts to combat dirty cash are hampered by several problems: law enforcement often lacks good intelligence from the source countries to take action; the cost for companies to conduct proper due diligence on customers is prohibitively high; anti-money-laundering controls vary between countries and even within institutions; and a flood of “suspicious activity reports” can hide the most serious transactions. Furthermore, the discontinuation of the FATF’s blacklist of non-cooperative countries has made it harder for companies to assess geographic risk.

II. Task 2: Paraphrasing statements

1. This investigation serves as a warning about the serious risks that top companies face regarding money laundering accusations, despite their own internal checks and global efforts to stop the flow of illegal money.
2. The UK faces what are perhaps the greatest risks due to the widely reported inflow of substantial funds from non-transparent origins, including the former Soviet Union, government-owned investment funds, and oil-rich nations in the Middle East.
3. While law enforcement and regulatory bodies recognize the heightened risk from this capital inflow, they assert that a lack of reliable information from the countries of origin often prevents them from taking action.
4. Another strange difficulty for companies is that the supposed success of international campaigns against poorly regulated jurisdictions has paradoxically cut off a valuable source of intelligence for risk assessment.
5. A banker tactfully remarked that while the increase in these new capital flows will present new difficulties, these challenges are ultimately manageable.

III. Task 3: True or False

1. **True.**
2. **False.** The passage says, “**Like regulators**, companies with anti-money-laundering responsibilities are finding it increasingly expensive...”.
3. **False.** The passage provides an anecdote about a bank whose profit margin only allowed it to spend \$5,000 on vetting, an amount insufficient to properly investigate suspicions.
4. **False.** The passage states that the list has been “whittled down to zero” and that stalwarts like Nigeria and Burma have been removed.

5. **True.**

IV. Task 4: Discussion Questions

1. **Offer some tips on what banks should look for when they suspect that a customer may be laundering money?**

The texts do not provide a direct list of tips, but based on the problems described, banks should be particularly suspicious of:

- Customers or funds originating from countries known for being “opaque sources” or having poor data quality.
 - Complex transaction structures that seem designed to hide the true ownership of assets, such as using companies registered in tiny offshore jurisdictions like Niue.
 - Customers whose identity is difficult to verify or whose source of wealth is unclear, which relates to the “know-your-customer” provisions.
2. **Talk about economic crimes and terrorism.**

Passage 1 provides a detailed link between economic crimes and money laundering. It states that the proceeds from crimes like “drug trafficking, organized crime, corruption, illicit dealing in weapons, human trafficking, fraud and theft” are the primary sources of laundered money. A new and important dimension is the link to terrorism, where even legitimate or “clean money” is used to finance unlawful activities. Combating money laundering is seen as a way of attacking criminals at their weakest point: their money sources.

Unit 14 Investment Banking

Background Reading Questions

1. **What did early investment institutions do in the 1600s?**

In the 1600s, early investment institutions like acceptance houses and merchant banks helped to finance foreign trade and gathered funds for long-term investments overseas.

2. **What’s the development of J.P. Morgan?**

The firm of J. P. Morgan was a major player in corporate mergers during the late 1800s. Its founder, J.P. Morgan, was so influential that he is credited with organizing a solution to the banking crisis of 1907. Following the Glass-Steagall Act of 1933, the original universal bank was split into separate companies: JP Morgan as a commercial bank, Morgan Stanley as an investment bank, and Morgan Grenfell as a British merchant bank.

3. **Why did investment banking expand dramatically in the early twentieth century?**

Investment banking expanded dramatically in the early twentieth century primarily because of an increase in the number of individuals who owned stock, which was a result of the prosperous years following World War I.

4. **What kind of new regulations were passed to protect investors from fraudulent stock promoters and stabilize the banking system? Give examples.**

After the stock market crash of 1929, a series of new regulations were introduced. Two key examples mentioned are:

- **The Federal Securities Act of 1933:** This act required “full disclosure” of accurate information for securities offered to the public.

- **The Glass-Steagall Act of 1933:** This act forced the separation of commercial banking from investment banking, compelling large universal banks to split their operations.

Issues

Fill in the blanks

1. play a very crucial role
2. corporate finance
3. mergers and acquisitions
4. ups and downs
5. claw-back provisions
6. Equity Derivatives
7. Short-Term Funding

Discussion Questions

- **How much do you know about the future of investment banking?**

The future of investment banking is expected to be shaped by five key developments:

- The imposition of more stringent laws and restrictions by regulators.
- The tightening of “claw-back provisions” to protect banks from crashes caused by imprudent traders.
- A greater emphasis on complex products like equity derivatives, currency trading, and interest-rate products.
- A shift in the industry structure towards fewer giant banks and more small “boutiques”.
- A reduced dependence on short-term funding to better manage the asset/liability mismatch.

- **What are the main purposes of investment banking?**

The main purposes of investment banking are to deal in corporate finance, which involves helping client companies raise capital through equity, debt, or other offerings. They also assist with mergers and acquisitions and trade in equities and derivatives.

- **Why may banks tighten up the claw-back provisions?**

Banks may tighten up claw-back provisions to make the volatile investment banking market more secure from crashes that are caused by the actions of “imprudent individual traders or groups”.

- **Work in groups and talk about the composition of the future of investment banking.**

The future of investment banking is likely to be composed of several key trends: there will be stricter regulations and internal rules like “claw-back provisions” to control risk. The business focus will likely shift more towards complex areas such as equity derivatives, currency trading, and corporate restructuring. The structure of the industry may also change, with fewer large banks and more specialized boutique firms emerging. Finally, there will be a move away from reliance on short-term funding to create a more stable financial structure.

Listening Practice: Passage 1

I. Warm-up Practice

1. **What is your understanding of the history of investment banking?**

The history of investment banking dates back to ancient times, with more significant developments starting in England in the 1500s or 1600s with merchant banks financing foreign trade. In the U.S., the industry grew by financing canals and railroads and was transformed by the Civil War, which introduced the first mass sale of securities. The late 19th and early 20th centuries saw the rise of major firms like JP Morgan and a spectacular expansion of the business, which ended with the crash during the Great Depression.

2. **What marked the very first mass securities selling operation in US history?** The first mass securities selling operation in U.S. history occurred during the Civil War. At that time, syndicated banking houses sold a billion dollars' worth of government bonds to a large number of individual investors through thousands of salesmen.

3. **What is the difference between fixed interest investments and equities?**

- **Fixed interest investments** typically have a fixed capital value for a certain period and provide a fixed amount of income.
- **Equities** are regular shares in companies where both the capital value and the income can fluctuate up or down.

II. Task 1: Multiple Choice

1. **B.** The history of investment banking in England has a significant start in the 1500 or 1600's.
2. **C.** The Civil War.
3. **B.** Investment banking is a type of banking that assists companies in giving funds.
4. **B.** Equities.
5. **A.** The longer an investor can leave his or her money in any kind of bank, the more risk the investor can afford to take.

III. Task 2: Fill in the blanks

Another important moment in the **evolution** of investment banking was the establishment of private banks, many of which started out as **family enterprises**. One well-known private bank in the history of investment banking was the House of Rothschild, which attained a superior position in European financial centers during the 1800's and 1900's.

Corporate financing this is done by the bank helping companies **raise** additional financing in ways that helps them stay ahead of competitors. For instance, if a company needs to raise money to research new products, the investment bank might **allow** the company to sell shares. The bank or financial institution will offer shares to clients.

IV. Task 3: Retell the passage

The history of investment banking is long, with a key moment in the U.S. occurring during the Civil War. This period was crucial as it led to the syndication of banking houses and the first mass securities selling operation, where a billion dollars in government bonds were sold to numerous investors through thousands of salesmen.

When trying to understand investment banking today, it's important for investors to remember that achieving financial goals often involves taking risks. Before buying shares or starting an account,

investors should research the companies that a particular investment bank works with to understand these risks.

V. Task 4: Discussion Topics

1. What is the main history of investment banking in the US and Britain?

- **Britain:** The history has a significant start in the 1500s or 1600s with merchant banks and acceptance houses that financed foreign trade. A later key development was the rise of powerful private family banks, such as the House of Rothschild, in the 1800s and 1900s.
- **US:** The U.S. was initially reliant on British capital. A crucial point in its history was the Civil War, which spurred the first mass securities selling operation to finance the war effort. The late 19th century focused on financing railroads, and the early 20th century saw spectacular expansion due to a great prosperity period before the industry crashed during the Great Depression.

2. What is your understanding of a good investment bank?

Based on the text, a good investment bank effectively helps companies raise funds through corporate financing or by assisting with mergers and acquisitions. For its clients, a good investment bank will guard their assets while also taking calculated risks on their behalf. The text notes that if these investments fail, the bank will be the one to suffer the losses, indicating a commitment to protecting its clients.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

The global financial landscape is undergoing a “quiet fight” for dominance between established Western financial firms and their rapidly growing emerging market (EM) rivals. While Western banks are still recovering from the financial crisis, EM institutions are aggressively defending their home markets and expanding into developed nations. Western firms are attracted to the high-profit growth in EMs but face significant challenges, including political risk and tough competition from domestic players. To succeed, they must be strategic, focus on high-end services where they have an advantage, and use technology like mobile banking to reach new customers. Meanwhile, EM banks, backed by their governments and demographic advantages, are also “going out” and acquiring positions in the U.S. and Europe, signaling a new, competitive era in global finance.

II. Task 2: Paraphrasing statements

1. While many financial companies in the West are still working to stabilize their businesses four years after the financial crisis began, their competitors in emerging markets have continued to grow without any significant interruption.
2. The banks BBVA and Santander, which earn approximately half of their revenue from emerging markets, are well-known for being strongly focused on their customers.
3. However, Western financial services companies have many competitive strengths that their emerging market rivals will struggle to match, especially in sophisticated, high-value areas like asset management and corporate banking.
4. In response to the Chinese government’s encouragement for its banks to expand internationally, the Industrial and Commercial Bank of China acquired a majority

ownership stake in the Bank of East Asia's U.S. operations in January.

5. The clear message for financial services companies in the West is that a serious new phase of competition has begun.

III. Task 3: True or False

1. **True.**
2. **False.** The passage states that slower growth and tougher regulations *have cut* the average return on equity for European banks.
3. **True.**
4. **False.** The passage states that this expansion *is logical.*
5. **True.**

IV. Task 4: Discussion Questions

1. **What does “quiet fight” mean in this passage? And what is your understanding about it?**

The “quiet fight” refers to the escalating, but not always overt, competition for “domination in the global financial sector” between the established Western banks and the rising financial institutions from emerging markets. It's a strategic battle fought on two fronts: Western banks are pushing into emerging markets for growth, while emerging market banks are now advancing into developed markets to establish their own global presence.

2. **According to the passage, what is Chinese government's policy on its banking construction?**

The passage indicates that the Chinese government has a policy of encouraging its banks to expand internationally, a strategy described as urging them to “‘go out’ into the world”. This policy supports Chinese banks, like the Industrial and Commercial Bank of China, in acquiring banks and building a presence in developed markets like the United States.

Unit 15 Banking on the Internet

Background Reading Questions

1. **Have you heard of Internet banking? How does it work?**

Yes. The text defines Internet banking as a facility provided by financial institutions that allows a user to perform bank-related transactions over the Internet. It works by enabling account holders to conduct business, such as checking their balance or viewing recent transactions, from home without having to physically visit a bank branch.

2. **What is the biggest advantage of Internet banking?**

According to the “Background Reading,” the biggest advantage of Internet banking is that people can use its services to transact business while sitting at home, eliminating the need to visit the bank in person.

3. **What problems do you think Internet banking may have?**

While the “Background Reading” does not list any problems, “Passage 1” outlines several disadvantages. These include: the start-up process may take time and require a visit to a branch, the websites can be difficult to navigate at first, banks may periodically change

their site layouts, and for many people, the biggest problem is learning to trust the system with their financial transactions.

4. **How do you think Internet banking will influence the banking industry?**

The text suggests Internet banking is having a revolutionary influence on the banking industry. Banks see it as a “value-added” tool to attract and retain customers in an increasingly competitive environment. For the banks themselves, it is cost-effective, drastically reduces administrative work, and lowers operational expenses (like stationery), which helps to raise their profit margins.

Issues

Fill in the blanks

1. cost-effective
2. bank stationery
3. profit margin
4. reap the benefit
5. bank account
6. online payment services
7. apply for a loan

Discussion Questions

- **Can you summarize the disadvantages of internet banking along with its advantages?**

Advantages:

- **For Banks:** It is cost-effective, reduces administrative work, and increases profit margins by lowering expenditures. It is also a powerful tool for attracting and retaining customers.
- **For Customers:** It is convenient and available 24/7 regardless of location. It allows for fast transactions, including electronic money transfers. Users can manage all their accounts from one site and use it to apply for loans, buy or sell stocks, or open new accounts.

Disadvantages:

- **Usability:** The initial setup may be time-consuming, and the websites can have a learning curve. Banks also periodically update their sites, which can be confusing for users.
 - **Trust:** For many people, the biggest hurdle is learning to trust that online transactions are secure and have been processed correctly.
- **What kind of prospect do you think internet banking has?**

The texts suggest that Internet banking has a very strong prospect. It is described as a “revolution in the field of banking” that will likely become as “commonplace as automated teller machines”. Furthermore, its future involves evolving into a “smart digital banking model” through the integration of advanced technologies like the Internet of Things (IoT) and Blockchain.
 - **Discuss with your classmates and teachers about the influence that internet banking has on the banking industry.**

Internet banking is profoundly influencing the banking industry. It has introduced new, cost-effective ways for banks to operate, increasing their profit margins. It has also changed the competitive landscape by enabling the creation of “virtual banks” that have no physical branches and can pass on their overhead savings to customers. This forces traditional banks to adopt “brick-to-click” models to attract and retain customers. The technology is a key part of the ongoing “Digital Transformation of banking,” pushing the entire industry to become more efficient and customer-focused.

- **Hold a debate on this issue: there are more advantages than disadvantages in terms of internet banking.**

Arguments supporting the view that advantages outweigh disadvantages: The advantages of internet banking—such as 24/7 convenience, speed, efficiency, and cost savings for both the bank and the customer—are fundamental and transformative. The disadvantages, on the other hand, are primarily related to user adoption and adjustment, such as the initial learning curve and building trust in the system. These are hurdles that diminish over time as technology becomes more user-friendly and people grow more accustomed to digital life. The core benefits, however, are lasting and represent a significant evolution in how banking services are delivered.

Listening Practice: Passage 1

I. Warm-up Practice

1. **Have you ever used any sort of online banking services? If yes, how does it feel? If no, why not give it a try?**

The passage suggests that online banking is designed to help users “manage your finances more quickly and efficiently” by allowing them to bypass the “time-consuming, paper-based aspects of traditional banking”.

2. **What kind of attitude do the people around you hold towards online banking? Please explain the reasons of their attitudes.**

The passage indicates that many people are still hesitant. They may have heard a lot about online banking but haven’t tried it because they “feel more comfortable working with a banker or an agent you know and trust”. The text identifies that for many, the biggest obstacle is learning to trust the online system, a concern referred to as “The trust thing”.

3. **Do you believe that online banking will replace most offline banking services? And why?**

The text suggests that online banking will replace many, but not necessarily all, offline services. The emergence of “virtual banks” with no physical branches shows that a fully online model is viable. At the same time, the dominant model for traditional banks is becoming “brick-to-click,” a hybrid that combines physical branches with online services, suggesting that offline services still hold some value for customers.

II. Task 1: Multiple Choice

1. **A.** Virtual banks.
2. **C.** Large national banks.
3. **D.** all of the above
4. **A.** Paper-based.

5. **D.** The trust thing.

III. Task 2: Fill in the blanks

For years, financial institutions have used powerful computer networks to **automate** millions of daily **transactions**; today, often the only paper record is the customer's **receipt** at the point of sale. Now that its customers are connected to the Internet via personal computers, banks envision similar economic **advantages** by adapting those same internal **electronic** processes to home use.

IV. Task 3: Retell the passage

Online banking uses computer technology to allow customers to manage their finances more quickly and efficiently, bypassing the paper-based aspects of traditional banking. This service originated from the banking industry's desire to adapt its internal electronic processes for home use, which helps them attract customers and cut costs. Today, most large banks are "brick-to-click," offering online services alongside their physical branches, while newer "virtual banks" operate entirely online.

The advantages of online banking are significant, including 24/7 convenience, ubiquity, transaction speed, and efficiency in managing all accounts from one site. However, there are disadvantages, such as a potentially time-consuming setup, a learning curve for new users, occasional site changes, and for many, the challenge of learning to trust the security of online transactions.

V. Task 4: Discussion Topics

1. **What do "brick-and-mortar banks", "brick-to-click banks" and "virtual banks" refer to? What are the differences among the three?**
 - **Brick-and-mortar banks:** These are traditional banks with physical branches that have not yet begun to offer online banking services.
 - **Brick-to-click banks:** These are traditional brick-and-mortar banks that have added online banking as a new service channel for their customers.
 - **Virtual banks:** These banks have no physical branches or tellers at all; they exist entirely on the Internet from the customer's perspective.
2. **What are the advantages and disadvantages of online banking? In your opinion, does online banking have more advantages over disadvantages or vice versa?**
 - **Advantages:** Convenience (available 24/7), ubiquity (accessible from anywhere), transaction speed, efficiency (manage all accounts in one place), and effectiveness (sophisticated financial tools).
 - **Disadvantages:** The start-up process can be slow, there is a learning curve, bank websites can change, and overcoming a lack of trust in the system is a major hurdle for many people.
 - **Opinion:** The advantages of online banking appear to outweigh the disadvantages. The advantages are fundamental benefits of technology, while the disadvantages are primarily challenges of user adoption and familiarity that tend to decrease over time.

Listening Practice: Passage 2

I. Task 1: Summarize the passage

We are in the midst of a technological revolution driven by Digital Transformation, in which the Internet of Things (IoT) and Blockchain technology are playing a central role. The IoT—the vast network of connected smart devices—is enabling a new “Banking of Things,” where financial institutions can obtain detailed data on customer behavior to offer highly personalized services in real time. This allows traditional banks to compete with their more agile Fintech rivals. To secure this massive flow of data, Blockchain technology is essential, as it provides a robust way to protect network connections and create trusted environments. The combination of these technologies, along with AI and Big Data, is essential for the survival and evolution of financial institutions, leading them toward a new “smart digital banking” model.

II. Task 2: Paraphrasing statements

1. We are currently experiencing a significant technological revolution fueled by an unstoppable process of Digital Transformation, in which Blockchain and the Internet of Things are playing a vital part.
2. The Internet of Things, which is a network of interconnected objects, exists in both our personal and work lives, where it simplifies and makes many tasks more efficient.
3. Adopting IoT technology provides a major impetus to the Digital Transformation of the banking industry, enabling traditional banks to match the capabilities of Fintech models for financial transactions.
4. Similarly, Blockchain is the preeminent technology for securing the connections between smart devices on the IoT network because we face the task of protecting a vast amount of continuously updated, real-time data.
5. For financial institutions to survive and evolve in the current environment, digitalization is a critical component.

III. Task 3: True or False

1. **True.**
2. **True.**
3. **False.** The passage states that cybercrime is interested in taking advantage of “emerging technologies”.
4. **False.** The passage states that smart devices allow this customization with a “lower level of risk and without a mega investment”.
5. **True.**

IV. Task 4: Discussion Questions

1. **How can Blockchain technology and Internet of Things contribute to the banking industry?**
 - **Internet of Things (IoT):** IoT contributes by allowing banks to create a “smart network of devices” which can gather and analyze detailed customer data and behaviors. This enables them to shift from a product-focused strategy to offering personalized financial services in real time, helping traditional banks compete with Fintech companies.
 - **Blockchain Technology:** Blockchain’s main contribution is providing security. It is described as the ideal technology to protect the vast amount of real-time data

flowing through the IoT network, thereby creating the “trusted environments” necessary for digital banking.

- 2. In your opinion, will there be more cybercrime in the era of digital banking? Give your reasons.**

Yes, the passage suggests there will be more cybercrime. It states that “cybercrime... is always interested in taking advantage of the vulnerabilities of emerging technologies”. As the banking sector becomes more digitized and reliant on a vast, interconnected network of smart devices (the IoT), the number of potential attack points for criminals increases. This expanded digital footprint creates more vulnerabilities for cybercrime to exploit, making robust cybersecurity essential.