



# **ENGLISH FOR SPECIAL PURPOSES**

## **LESSON 9: FINANCE**

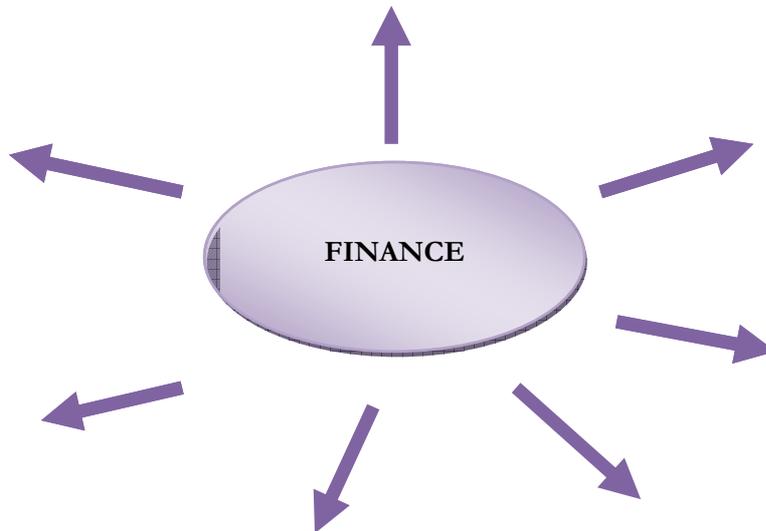


Version without a key



**WARM UP** – what are your associations with “FINANCE”.

**BRAINSTORM YOUR IDEAS**



**SPEAKING**

► **NOW:** Explain your associations, using the following pattern:

When I think “FINANCE”, I think about ... .

Or

I associate “profit and money” with “FINANCE” because... .



Complete the definition of “FINANCE” with the words from the box.

KEY

RATE

ASSETS

Finance is the study of how investors allocate their \_\_\_\_\_ over time under conditions of certainty and uncertainty. A \_\_\_\_\_ point in finance, which affects decisions, is the time value of money, which states that a unit of currency today is worth more than the same unit of currency tomorrow. Finance aims to price assets based on their risk level, and expected \_\_\_\_\_ of return. Finance can be broken into three different sub categories: public finance, corporate finance and personal finance.

Source: <http://en.wikipedia.org/wiki/Finance>



### SPEAKING

- Look at the synonyms of allocate and key. Use them to explain the notion of “finance”. Try to paraphrase the definition above, using the synonyms and your own words.

allocate	→	assign; divide among
key	→	essential, important



### EXTEND YOUR KNOWLEDGE

- Read the text about areas of finance and answer the questions below the text.

## Areas of finance

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### Personal finance

Questions in personal finance revolve around:

- How can people protect themselves against unforeseen personal events, as well as those in the external economy?
- How can family assets best be transferred across generations (bequests and inheritance)?
- How does tax policy (tax subsidies or penalties) affect personal financial decisions?
- How does credit affect an individual's financial standing?
- How can one plan for a secure financial future in an environment of economic instability?

Personal financial decisions may involve paying for education, financing durable goods such as real estate and cars, buying insurance, e.g. health and property insurance, investing and saving for retirement.

Personal financial decisions may also involve paying for a loan, or debt obligations. The six key areas of personal financial planning, as suggested by the Financial Planning Standards Board, are:

1. **Financial position:** is concerned with understanding the personal resources available by examining net worth and household cash flow. (...)
2. **Adequate protection:** the analysis of how to protect a household from unforeseen risks. These risks can be divided into liability, property, death, disability, health and long term care. Some of these risks may be self-insurable, while most will require the purchase of an insurance contract. (...)
3. **Tax planning:** typically the income tax is the single largest expense in a household. Managing taxes is not a question of if you will pay taxes, but when and how much. (...)
4. **Investment and accumulation goals:** planning how to accumulate enough money for large purchases, and life events is what most people consider to be financial planning. Major reasons to accumulate assets include, purchasing a house or car, starting a business, paying for education expenses, and saving for retirement.(...)
5. **Retirement planning** is the process of understanding how much it costs to live at retirement, and coming up with a plan to distribute assets to meet any income shortfall. (...)
6. **Estate planning** involves planning for the disposition of one's assets after death. Typically, there is a tax due to the state or federal government at your death. Avoiding these taxes means that more of your assets will be distributed to your heirs. You can leave your assets to family, friends or charitable groups.

### Corporate finance

Managerial or corporate finance is the task of providing the funds for a corporation's activities (for small business, this is referred to as SME finance). Corporate finance generally involves balancing risk and profitability, while attempting to maximize an entity's wealth and the value of its stock, and generically entails three interrelated decisions. In the first, "the investment decision", management must decide which "projects" (if any) to undertake. The discipline of capital budgeting is devoted to this question, and may employ standard business valuation techniques or even extend to real options valuation; The second, "the financing decision" relates to how these investments are to be funded: capital here is provided by

shareholders, in the form of equity (privately or via an initial public offering), creditors, often in the form of bonds, and the firm's operations (cash flow). Short-term funding or working capital is mostly provided by banks extending a line of credit. The balance between these elements forms the company's capital structure. The third, "the dividend decision", requires management to determine whether any unappropriated profit is to be retained for future investment / operational requirements, or instead to be distributed to shareholders, and if so in what form. Short term financial management is often termed "working capital management", and relates to cash-, inventory- and debtors management. These areas often overlap with the firm's accounting function, however, financial accounting is more concerned with the reporting of historical financial information, while these financial decisions are directed toward the future of the firm.

Another business decision concerning finance is investment, or fund management. An investment is an acquisition of an asset in the hope that it will maintain or increase its value. In investment management – in choosing a portfolio – one has to decide what, how much and when to invest. To do this, a company must:

- Identify relevant objectives and constraints: institution or individual goals, time horizon, risk aversion and tax considerations;
- Identify the appropriate strategy: active versus passive hedging strategy
- Measure the portfolio performance

Financial management is duplicate with the financial function of the Accounting profession. However, financial accounting is more concerned with the reporting of historical financial information, while the financial decision is directed toward the future of the firm.

Financial risk management, an element of corporate finance, is the practice of creating and protecting economic value in a firm by using financial instruments to manage exposure to risk, particularly credit risk and market risk. (Other risk types include Foreign exchange, Shape, Volatility, Sector, Liquidity, Inflation risks, etc.) It focuses on when and how to hedge using financial instruments; in this sense it overlaps with financial engineering. Similar to general risk management, financial risk management requires identifying its sources, measuring it (see: Risk measure: Well known risk measures), and formulating plans to address these, and can be qualitative and quantitative. In the banking sector worldwide, the Basel Accords are generally adopted by internationally active banks for tracking, reporting and exposing operational, credit and market risks.

### **Public finance**

Public finance describes finance as related to sovereign states and sub-national entities (states/provinces, counties, municipalities, etc.) and related public entities (e.g. school districts) or agencies. It is concerned with:

- Identification of required expenditure of a public sector entity
- Source(s) of that entity's revenue
- The budgeting process
- Debt issuance (municipal bonds) for public works projects

Central banks, such as the Federal Reserve System banks in the United States and Bank of England in the United Kingdom, are strong players in public finance, acting as lenders of last resort as well as strong influences on monetary and credit conditions in the economy.

► **EXERCISE 1 – UNDERSTANDING THE TEXT - Answer the general questions about the text:**

1. What are the three main areas of finance?
2. How important is personal finance and what decisions may it involve?
3. What is corporate finance about?
4. What is public finance and what is it concerned with?

► **EXERCISE 2 – UNDERSTANDING THE TEXT - Decide which sentences are TRUE or which are FALSE:**

1. Managing taxes is not only a question of if you will pay taxes, but also when and how much you will pay.

true     false

2. Corporate finance generally involves balancing risk and profitability, while attempting to minimize an entity's wealth and the value of its stock, and generically entails three interrelated decisions.

true     false

3. However, financial accounting is more about reporting of historical financial information, while the financial decision is directed toward the future of the firm.

true     false

4. Financial risk management, an element of corporate finance, is the practice of creating and protecting economic value in a firm without using financial instruments to manage exposure to risk, particularly credit risk and market risk.

true     false

5. Public finance relates to finance in connection with sovereign states and sub-national entities (states/provinces, counties, municipalities, etc.) and related public entities (e.g. school districts) or agencies.

true     false

- **EXERCISE 3 – VOCABULARY EXERCISE** - Read the definitions below. In the text try to find the words that mean the same what a definition.

WORD	DEFINITION:
	not expected
	money or objects that someone gives you when they die
	the period in someone's life after they have stopped working because they reached a particular age
	an amount which is less than the level that was expected or needed
	an agreement in which you pay a company money and they pay your costs if you have an accident, injury, etc.
	something which exists apart from other things, having its own independent existence
	the value of a company, which is divided into many equal parts owned by the shareholders, or one of the equal parts into which the value of a company is divided
	a person who owns some of the equal parts into which the ownership of a company is divided



### EXTEND YOUR FINANCE VOCABULARY – nouns

- **EXERCISE 1:** Look at the words below and order them into a proper column.

tax inspector	profit and loss account	pension	dividends
business plan	tax consultant	shares	letter of credit
market analyst	assets	tender	financial advisor
stockbroker	turnover	insurance certificate	capital spending

JOB IN FINANCE	DOCUMENTS IN FINANCE	NOTIONS IN FINANCE

► **EXERCISE 2: Match the words from the previous exercise with their definitions.**

NB	WORDS	ANSWER	NB	DEFINITIONS
1	tax inspector		A	The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars.
2	market analyst		B	It is a professional who helps clients to maintain the desired balance of investment income, capital gains, and acceptable level of risk by using proper asset allocation.
3	tax consultant		C	A government official who ensures that organisations and individuals pay the correct amount of tax at the right time.
4	financial advisor		D	A resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit
5	stockbroker		F	A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

6	letter of credit		G	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year. These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs.
7	business plan		H	A document issued by an insurance company/broker that is used to verify the existence of insurance coverage under specific conditions granted to listed individuals.
8	insurance certificate		I	It is a formal statement of a set of business goals, the reasons they are believed attainable, and the plan for reaching those goals.
9	profit and loss account		J	It is a document that a financial institution or similar party issues to a seller of goods or services which provides that the issuer will pay the seller for goods or services the seller delivers to a third-party buyer.
10	tender		K	This person studies market conditions in local, regional, or national areas to examine potential sales of a product or service.
11	capital spending		L	It is a regulated professional individual, usually associated with a brokerage firm or broker-dealer, who buys and sells shares and other securities for both retail and institutional clients, through a stock exchange or over the counter, in return for a fee or commission.
12	pension		M	A formal letter with an offer to supply goods or devices, containing a description of the project, including costs, materials, personnel, time plans, etc.
13	dividends		N	A unit of ownership interest in a corporation or financial asset.
14	assets		O	Spending for long-term assets such as factories, equipment, machinery, and buildings that permits the production of more goods and services in future years.
15	shares		P	A financial expert specially trained in tax law, usually advises a company or an individual on how to pay less tax.
16	turnover		R	Post-retirement benefits that an employee might receive from some employers.



## EXTEND YOUR FINANCE VOCABULARY – verbs

- Fill the gaps with the words from the box. Remember to put the verbs in proper grammar forms.

analyze	trade	invest	advise
merge	debit	credit	

1. The unauthorized borrowing fee will be \_\_\_\_\_ to your account.
2. Accountants use impact analysis and financial ratios to \_\_\_\_\_ financial statements.
3. What is the name of the science that describes the management of money, banking, credit, investments and assets for international \_\_\_\_\_ transactions?
4. Have you ever wondered how to \_\_\_\_\_ in stock?
5. As your lead financial adviser, our financial advisor will raise the funds you require and \_\_\_\_\_ on all aspects of the buy-out including when to approach the owners and how to prepare the approach, structuring funding so it works for the long-term and helping you keep ahead of other buyers.
6. Competition law determines whether one company will be entitled to \_\_\_\_\_ with another.
7. They \_\_\_\_\_ my account with \$20 after I pointed out the mistake.