

Central Banking

EXERCISE 1

Complete these sentences about Central Banks using the words in the box:

Central Banks, such as the Bank of England, the Federal Reserve Board in the US, and the Bundesbank in Germany:

act	control
fix	function
implement	influence
issue	supervise

- as banks for the government and for other banks.
- monetary policy - either the government's, as in Britain, or their own, if they are independent, as in Germany and the USA.
- the money supply, measured by different aggregates such as M0, M1, M2, M3, etc.
- the minimum interest rate.
- as lender of last resort to commercial banks with liquidity problems.
- coins and bank notes.
- (floating) exchange rates by intervening in foreign exchange markets.
- the banking system.

EXERCISE 2

Complete this paragraph using these words:

assets	cash	interest	liquid	maturity	reserve
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Because a commercial bank can lend most of the money deposited with it to other borrowers, who in turn may lend it to another borrower, each sum of money deposited in a bank is multiplied several times. To ensure the safety of the banking system, central banks impose (1) requirements, obliging commercial banks to deposit a certain amount of money with the central bank at zero (2) Central banks in different countries also impose different "prudential ratios" on commercial banks. These are ratios between deposits and liquid (3) that are considered sufficient to meet demands for (4) (A bank's assets are its loans, which should, in theory, all be paid back one day, and its liabilities are the customers' deposits, which can all be withdrawn one day.) For example, a bank's capital ratio is between its capital and reserves on the one hand, and its total assets on the other. The reserve asset ratio is between deposits with a (5) of under two years, called "eligible liabilities," and reserve assets, which include cash and assets that are (6) - i.e. quickly convertible into cash - such as reserve deposits held by the central bank, and securities such as treasury bills.

The Money Supply

EXERCISE 1

Insert the words in the boxes in the following paragraphs:

bonds prices	commercial tight	monetarist velocity
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Following the (1) argument that the average level of (2) and wages is determined by the amount of money in circulation, and its (3) of circulation, many central banks now set money supply targets. By increasing or decreasing the money supply, the central bank indirectly influences interest rates, demand, output, growth, unemployment and prices. The central bank can reduce the reserves available to (4) banks by changing the reserve requirements. This reduces the amount of money that banks can create and makes money (5) or scarce. Alternatively, the central bank can engage in what are called open market operations, which involve selling short-term government (6) (such as three-month Treasury bills) to the commercial banks, or buying them back.

EXERCISE 2

Now do the same with this paragraph:

credit interest rates	inflation the exchange rate	output	unemployment aggregate demand
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When money is tight,

1. rise, because commercial banks have to borrow at a higher rate on the inter-bank market.
 2. falls, because people and businesses borrow less at higher rates.
 3. falls, because people and businesses buy less, as they have less money.
 4. falls too, because with less consumption, firms produce less.
 5. rises, because companies are producing and selling less, and so require less labour.
 6. falls, because there is less money in circulation.
 7. will probably rise, if there is the same demand but less money, or if there is higher demand, as foreigners take advantage of the higher interest rates to invest in the currency.
- Increasing the money supply, by making more reserves available, has the opposite effects.

Word Partnerships – Bank

EXERCISE 1

All the words below can be combined with *bank* or *banking* in a two-word partnership, e.g. *bank holiday* or *off-shore banking*. Add the word *bank* or *banking* either before or after each of the words below:

- | | |
|--------------------------|--------------------------|
| 1. account | 10. merchant |
| 2. balance | 11. note |
| 3. central | 12. off-shore |
| 4. clerk | 13. retail |
| 5. commercial | 14. robbery |
| 6. deposit | 15. savings |
| 7. holiday | 16. statement |
| 8. investment | 17. system |
| 9. manager | 18. wholesale |

EXERCISE 2

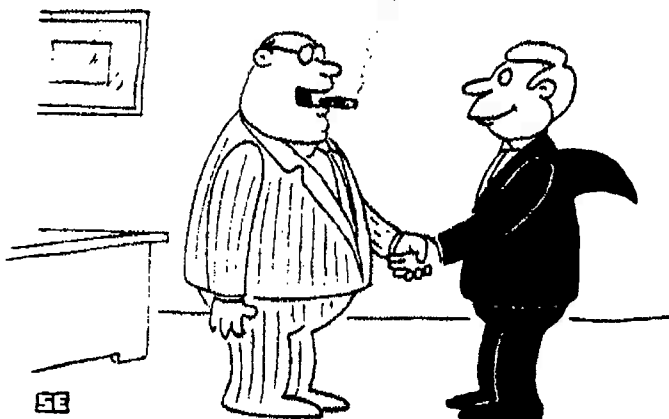
Now complete the following sentences:

In my country the most important types of banks are:

.....
.....

The banking services that I use are:

.....
.....



“Congratulations, Mr Smith – as soon as I saw you I knew that you were the right man for the job”