Glossary from Finance

Arbitrageing – achives profit without risk to utilise the bad pricing.

Balance of payments (BoP) - an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. The BoP accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items.

Bank - An institution which: takes deposits from individuals, companies, organisations etc. and provides them with various financial services; pays interest on deposits, which may be fixed or variable, but which usually vary according to the amount of money deposited and the amount of time it stays in the account; makes loans and charges interest on them

Bank system - The financial services providers, the institutional framework and the regulations

Bill Of Exchange - An old-fashioned term relating to a non-interest-bearing order in writing by one person to another to pay a specified sum to a specified person or bearer on a particular date. Bills of exchange are similar to promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable. The person making the order or drawing the bill is known as the drawer. The person to whom the bill is addressed is the drawee (for example a bank). The person to whom the bill is payable is the payee. Also know as commercial bills, trade bills and eligible bills.

Bimetallism - a monetary standard in which the value of the monetary unit is defined as equivalent both to a certain quantity of gold and to a certain quantity of silver; such a system establishes a fixed rate of exchange between the two metals.

Bretton Woods Agreement - An agreement made in Bretton Woods, in the US, in 1944 which established a post-war fixed currency rate between countries and subsequently the International Monetary Fund (IMF) and World Bank. The fixed exchange rate functioned until the early 1970s when the US dollar ceased to be convertible into gold and was replaced by a floating exchange rate.

Budget - Accounting the total revenues and total expenses of an organisational unit at a given period

Building Society - 'Mutual' non-profit-making institutions set up to lend money to their members for house purchase. Building societies are 'mutual' because they are owned by their members, who are entitled to their profits and benefits.

Capital Gains Tax - Capital gains tax arises as a result of a 'chargeable event' - in the case of stock market investment, the disposal of shares at a profit. Just because a capital gain is made does not mean a tax on the gain must be paid.

Capital Market - The general term for the market in which medium to long-term capital is raised, including stock and bond markets. It also refers to the intermediaries at investment banks and brokerages who make the markets.

Cheque - a document/instrument (usually a piece of paper) that orders a payment of money from a bank account. The person writing the cheque, the drawer, usually has a current account (most English speaking countries) checking account (US), or chequing account (CAN) where their money was previously deposited. The drawer writes the various details including the money amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person or company the amount of money stated.

Closed End Investment Fund - A collective fund with a fixed number of issued shares traded on a stock exchange. Because the supply of shares is limited, they will rise and fall in value according to supply and demand, like ordinary company shares.

Convertible - Convertibles are bonds issued by companies which can be converted into ordinary shares or preference shares at a given price at a future date.

Corporation Tax - A tax payable by a company on its profits.

Currency - Cash, cheques etc. which circulate in an economy as an accepted means of exchange.

Deflation - a decrease in the general price level of goods and services.

Deposit Insurance - Financial protection of certain bank accounts by way of insurance provided by the state. Bank insurance up to specified limits is provided for funds on deposit in member banks.

Derivatives - A collective term for securities whose prices are based on the prices of an underlying investment, such as cash, commodities, bonds or equities. The main derivatives are: futures, options, swaps, warrants, convertibles. The attractions of derivatives from an investor's point of view are: large profits (but also losses) can be made on a small stake, because they offer 'leverage'; money can be made whether the market goes up or down, which is not true if you invest in shares where you only make a profit if the share price rises; they can be used to reduce the risk (or hedge) of an investment in the underlying instrument. In general, derivatives are high-risk investments and not suitable for the ordinary investor.

Direct Taxation - Taxes which are imposed directly on the individual paying them. Examples of direct taxation are income tax, capital gains tax and inheritance tax. They are in contrast to indirect taxes, such as VAT which is a tax on expenditure.

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Discretionary fiscal policy - changes in taxes or spending that are the result of deliberate changes in government policy.

EBRD - Founded in 1991, the European Bank for Reconstruction and Development (EBRD) uses the tools of investment to help build market economies and democracies in 30 countries from central Europe to central Asia. Its mission was to support the formerly communist countries in the process of establishing their private sectors.

ECB - The European Central Bank (ECB) is the institution of the European Union (EU) that administers the monetary policy of the 17 EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany.

European Monetary System - EMS was the monetary system of the EU which attempted to reduce the currency variations between members. The EMS became operational on March 13th, 1979, as the successor to the 'snake in a tunnel'. Its aim was to create a zone of monetary stability in Europe. Its general principles were outlined at the Bremen Summit in July 1978, and the system was presented in detail at the Brussels Summit in December. The EMS consists of three mechanisms: the ERM; accounting and transaction mechanisms related to the ECU; and credit mechanisms to enable central banks to intervene in the currency markets. All the EU countries belonged to the EMS, although not all of them participated in the ERM. It was superseded by the ECU and the Euro.

Exchange Rate Mechanism - The mechanism by which members of the EC formerly operated their currency exchange rates within given upper and lower limits. In January 1999 certain members of the EC adopted the euro for their currency and the ERM effectively ceased to exist.

Excise Taxes – The state taxes on the sale or production of certain types of products such as alcohol and tobacco.

Factoring - The sale of a companys debts to a factor at a discount. A company that is owed money by trade debtors and faces the risk of slow payment or default on those debts, putting strain on its cash flow, can mitigate this danger by 'factoring' them. Special companies exist (factors) which will pay the company a high proportion of the amount it is owed, in return for the right to collect the debts from the debtors. The company gets a high percentage of the amount it is owed direct from the factor. The factors chase the money and keep the difference. Many banks offer factoring services.

Forward - The buying or selling of underlying instruments such as commodities, securities and currencies etc for delivery at a specified future date and a fixed price not at stock exchange.

FRB - The 12 Federal Reserve Banks form a major part of the Federal Reserve System, the central banking system of the United States.

Futures - A legal agreement to make or take delivery of a specified instrument (for example, a commodity such as coffee or a financial instrument such as a bond, currency or share) at a fixed future date at a price determined at the time of dealing at the stock exchange. Futures are a zero-sum game in the sense that the financial gain of one party equates to the loss of the other. In contrast to options, there is an obligation to complete the transaction.

Gold Standard - A currency fixing regime used by many countries before the Second World War where parities were set in relation to gold and countries had to be able to exchange gold for their currency.

Gresham law: „The bad money crowds out the good money"

Hedging – reduces the risk (corn producer sells the corn in the futures market)

IMF - The International Monetary Fund is an agency of the United Nations comprising 184 countries, working to foster global monetary cooperation, secure financial stability (notably of exchange rates), facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.

Indirect Taxation - Taxation that is levied in an indirect way rather than being charged directly on an individual's income or estate. A significant example is sales or value added tax (VAT) charged on goods and services and paid by consumers.

Inflation - The increase of prices in an economy over a period of time, usually annualised for comparative purposes. It is often thought to be caused by too much money chasing too few goods - an expansion in the money supply - or too strong rises in government spending. A small amount of inflation, say up to 2 or 3%, is thought to be acceptable but policy makers will normally respond to the threat of higher rates. In Hungary, the benchmark of inflation is either the Retail Price Index (RPI) or the consumer price index (CPI). They are both measures of the cost of a basket of goods and services representing the average households purchases. Inflation is a persistent threat to savers, partly because the erosive effect it has on savings is unseen. In order to make real gains on your investments, the first task is to make sure your returns beat the rate of inflation. Index-linked products, which pay an interest rate that keeps pace with inflation, are one solution.

Insurance - A contract in which payment of premiums covers the insured against something that may, or may not occur. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss.

Lease - A contract in which the legal owner of property or other asset agrees to another person using that property or asset in return for a regular specified payment (known as rent) over a set term. In addition to buildings, other items such as cars and computers are often leased in order to avoid capital costs in the running of a business.

Letter Of Credit - A document issued by a financial institution on behalf of a buyer stating the amount of credit the buyer has available, and that the institution will honour drafts up to that amount written by the buyer.

Loan - a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

M0 - M0 includes bank reserves, so M0 is referred to as the monetary base, or narrow money.

M1: Quasi money. Money in the circulation + account money.

M2 - Represents money and "close substitutes" for money. M2 is a broader classification of money than M1. Economists use M2 when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions. M2 is a key economic indicator used to forecast inflation.

Maastricht Criteria - Criteria, set out in the Maastricht Treaty, relating to inflation, budget deficits and public debt, that needed to be met by countries if they wanted to become members of European Monetary Union and adopt the euro. The Maastricht Treaty was signed in 1991 and established the European Union to replace the European Community.

MB - is referred to as the monetary base or total currency. This is the base from which other forms of money (like checking deposits, listed below) are created and is traditionally the most liquid measure of the money supply.

Monetarism - A theory that advocates the strict control of the money supply as a key tool of economic policy in the fight against inflation. It was popular in the 1980s when developed countries were trying to reduce their rates of inflation.

Monetary Policy - The control of the money supply and interest rates by a government in order to achieve its economic objectives, in particular the restraining of inflation.

Money - A financial asset, store of wealth and a medium of exchange. In economics, money can be referred to as narrow money, such as cash and other liquid assets used in everyday transactions, and broad money, which includes savings accounts and time deposits.

Money Market - A market in which money and other liquid assets such as bills of exchange and Treasury bills, generally of less than 12 months maturity, can be lent and borrowed in order to satisfy the short-term (from overnight to several months) cash flow requirements of banks and other institutions. Personal investors with large sums of money to deposit can also gain access to the money market via the commercial banks.

Mortgage - A loan in which the borrower (the mortgagor) offers a property and land as security to the lender (the mortgagee) until the loan is repaid. Repayments of the loan are usually made on a monthly basis over a long period of time. Mortgage rates might be fixed for a period of time or floating.

Open End Investment Fund - A collective investment scheme operated by an investment company that enables small private investors to invest in a diversified portfolio of shares, bonds and other securities. Known as an open-ended fund since there is no fixed amount of capital in the fund. If new investors want to invest, the fund can issue new units, accepting the money into the pool. Funds are managed by professional fund managers who invest in securities to achieve the trusts objectives such as capital growth, income or a combination of the two.

Open Market Operations - Routine operations by central banks in the financial markets in order to influence the volume and price of credit in the economy. Normally such intervention takes the form of dealing in short-term securities with commercial banks, increasing or decreasing the credit in the system.

Option - An option that gives the buyer or holder the right but not the obligation to sell shares (or other financial instruments) at a fixed price on or before a given date. The seller or writer has the obligation to buy. Every put option has an exercise price, the price at which the holder is entitled to sell the shares to the option writer. If the price of the share falls below the exercise price, the option is said to be in the money and to have an intrinsic value that is equal to the difference between the two.

Overdraft - money is withdrawn from a bank account and the available balance goes below zero.

Pension Fund - A fund set up by a company, union, or other organisation to invest the pension contributions of members and employees, and pay out pensions to those people when they reach retirement age. Pension funds accumulate pools of capital, which they invest in the stock and bond markets. Because of the weight of money, they exert considerable influence on the markets, and their decisions on which shares to hold in which sectors have a substantial impact on prices. Pension funds can employ their own fund managers or delegate responsibility to external fund managers.

P**rice level** - a hypothetical measure of overall prices for some set of goods and services, in a given region during a given interval, normalized relative to some base set. Typically, a price level is approximated with a price index.

Primary Market - A market in which new issues are traded. In other words, the trading of shares directly between a company and investors. By contrast, the secondary market involves investors buying and selling with other investors, with market makers and brokers facilitating trade. The companies whose shares are being traded are not directly involved in the secondary market, unless they engage in a share buyback.

Prime Rate, base rate - The interest rate which banks offer to their prime customers, that is, those with the most creditworthy records.

Promissory Note - A signed statement promising to pay to a specified person or the bearer a particular sum of money on a fixed date or on demand.

Real deficit - expense unavoidable, but not enough income. It can be financed by foreign loan, money creation**.**

Regulational deficit: due to imprecisiously measured income. It can be financed by state securities

Repo - The repo is one in which two participants agree that one will sell securities to another and make a commitment to repurchase equivalent securities on a future specified date, or on call, at a specified price. In effect, it is a way of borrowing or lending stock for cash, with the stock serving as collateral.

Secondary Market - The trading of shares amongst investors which does not involve the company itself. When people talk about trading on the stock market, they are generally referring to the secondary market, which involves brokers, market makers and an exchange providing a technical platform for trades to take place. The companies and their shares are the subject of the trading, but they are not directly involved as participants.

Sight deposit – a deposit which can be withdrawn at any time, without any notice or penalty.

Swap - Traditionally the exchange of one security for another to change the maturities of a bond portfolio or the quality of the issues in a stock or bond portfolio, or because investment objectives have changed. Currency swaps involve the purchase/sale of a currency in the spot market against the simultaneous purchase/sale of the same amount of the currency in the forward market. An interest rate swap is an arrangement in which two parties agree to exchange periodic interest payments, at agreed intervals, over an agreed period, but without any principal being paid. The most common and simplest deal involves one party paying a fixed rate of interest and the other paying a floating rate.

Tax – imposing a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law.

Technical deficit - incomes occasionally, expenses continuously. It can be financed by short term bridge loan

Time deposit - is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time (unless a penalty is paid).

Trading – invests for extra return and takes extra risk

Value Added Tax - An indirect tax levied on goods and services at each stage of production in many countries. A company or trader registered for VAT pays its suppliers VAT additionally to the cost of goods or services purchased - this is known as an input tax. Also VAT is added to the sales cost of their product when invoicing customers - known as output tax. The difference between output tax and input tax is payable to the appropriate government department.

Warrant - Warrants are securities issued by a company (often an investment trust) which give their owners the right to purchase shares in the company at a specific price at a future date. The warrants are tradable in their own right, and their value will go up and down as the price of the shares to which they relate goes up and down.

World Bank - an international financial institution that provides loans to developing countries for capital programs. World Bank's official goal is the reduction of poverty.

Y**ield curve** - the relation between the (level of) interest rate (or cost of borrowing) and the time to maturity, known as the "term", of the debt for a given borrower in a given currency.

Stock exchange - a form of exchange which provides services for stock brokers and traders to trade stocks, bonds, and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends.

Security - generally a fungible, negotiable financial instrument representing financial value.[1] Securities are broadly categorized into:debt securities (such as banknotes, bonds and debentures); equity securities, e.g., common stocks; and; derivative contracts, such as forwards, futures, options and swaps.

Bond - a debt security, in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) to use and/or to repay the principal at a later date, termed maturity. A bond is a formal contract to repay borrowed money with interest at fixed intervals (semi annual, annual, sometimes monthly)

Share - a single unit of ownership in a corporation, mutual fund, or other organization. A joint stock company divides its capital into shares, which are offered for sale to raise capital, termed as issuing shares. Thus, a share is an indivisible unit of capital, expressing the proprietary relationship between the company and the shareholder. The denominated value of a share is its face value: the total capital of a company is divided into number of shares.

Moral hazard - a situation where there is a tendency to take undue risks because the costs are not borne by the party taking the risk. A moral hazard may occur where the behavior of one party may change to the detriment of another after a transaction has taken place. For example, a person with insurance against automobile theft may be less cautious about locking their car, because the negative consequences of vehicle theft are now (partially) the responsibility of the insurance company. A party makes a decision about how much risk to take, while another party bears the costs if things go badly, and the party insulated from risk behaves differently from how it would if it were fully exposed to the risk. Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of those actions.

Purchasing power parity (**PPP**) asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate. Using that PPP rate, an amount of money thus has the same purchasing power in different countries.