

COURSE II

Module 1: Financial literacy and entrepreneurship
Unit 2: The Banking System



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Unit 2: The Banking System

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Introduction

Modern economies depend on the banking system, which is the foundation for all financial transactions, such as savings, loans, and investments.

All these transactions are made possible by the banking system, which is an important part of the economy.

The banking system

Banks, credit unions, and other financial institutions work together to provide a wide range of services to people, businesses, and governments. This is known as the banking system.

The banking system is very important to the business because it helps money move around, gives out loans, and supports growth and development.



The banking system

Commercial Banks

The most common banks. Individuals and businesses can deposit and borrow from them. Credit/debit cards and wire transfers are also handled by commercial banks.

Central Banks

Every country typically has a central bank. Central banks regulate the money supply, set interest rates, and oversee the overall stability of the financial system.

Investment Banks

Corporate and government financial services are their speciality. They help raise capital by underwriting or facilitating mergers and acquisitions. Securities trading and advisory services are also done by investment banks.



The banking system

Credit Unions

Credit unions are member-owned cooperatives. They offer similar services to retail banks but offer better savings and loan interest rates due to their non-profit status.

Retail Banks

Retail banks serve individuals and small businesses. Basic banking services include savings, checking, mortgages, and personal loans. Retail banks usually have branches and ATMs for convenience.

Online Banks

Technology has contributed to digital banking popularity. These online-only banks offer high-yield savings, checking, and loans. Many offer lower interest rates and fees than traditional banks.



Different forms of money



A **bank** is a financial institution that provides a range of financial services to individuals, businesses, and governments. Banks play a crucial role in the economy by facilitating the flow of money, providing credit, and supporting economic growth and development..



Cash is the money we hold in physical form. This includes coins and paper money.



Credit refers to the ability to borrow money or access goods or services with the understanding that repayment will be made at a later date, often with interest. Credit plays a significant role in personal finance and the economy, facilitating transactions, enabling purchases, and providing financial flexibility.



An **online wallet (e-wallet or digital wallet)** is a digital tool or platform that lets people safely store, manage, and send different types of digital currency.

Key components and functions of the banking system

Deposit-Taking Institutions

In the banking system, banks and credit unions are the main places that take deposits.

People and businesses can put money in the bank, which is then used to pay for loans and other financial activities.

Lending and Credit

One of the main jobs of banks is to lend money and credit to people, businesses, and the government. People borrow money from banks to do many things, like buy homes, start businesses, pay for infrastructure projects, and meet short-term cash flow needs.



Key components and functions of the banking system

Payment Services

Payment services from banks make it easier to make purchases and send money to other people.

Checking and savings accounts, debit and credit cards, electronic funds transfers (EFTs), wire transfers, and an online banking platform are some of the services that are offered.

... and many more!

Setting the interest rate

Interest rates are affected by what banks do when they lend and deposit money. They decide the lending rates (interest rates paid on loans) and deposit rates (interest rates paid on deposits). These rates can affect how much it costs to borrow money, how investments are made, and how much people save.



Assessment



1. Can you name three types of banks mentioned in the text and briefly describe the services they offer?
2. What is the role of central banks in the banking system, and how do they contribute to financial stability?
3. What are online banks, and what advantages do they offer compared to traditional brick-and-mortar banks?

Summary

There are a lot of different parts to the banking system that you need to fully understand in order to understand how money moves. In order to legally save money, make important transactions, and borrow money, you need to go to a bank.

Banks in the Western world process almost all financial transactions.