

## **Lesson 09: Introduction to Finance**

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### **1. Types of Businesses:**

If land, labor, and capital are the essential ingredients for creating all goods and services, who pulls these resources together? The answer is **entrepreneurs**. Entrepreneurs... decide how to combine land, labor, and capital resources to create new goods and services. They are the individuals who take risks to develop original ideas, start business, create new industries, and fuel economic growth.... Entrepreneurs must make many decisions as they start up new businesses. One of the first decisions they face is what form of business organization best serves their interests. A business organization is an establishment formed to carry on commercial enterprise. In other words, a business organization is a company or firm.

#### **1.1. Sole Proprietorships:**

A sole proprietorship is a business owned and managed by a single individual. That person earns all of the firm's profits and is responsible for all of the firm's debts.

\*sole proprietors can run their businesses as they wish. This means that they can respond quickly to changes in the marketplace. Such a degree of freedom appeals to entrepreneurs.

#### **1.2. Partnerships:**

A partnership is a business organization owned by two or more persons who agree on a specific division of responsibilities and profits. In the United States, partnerships account for about 7 percent of all businesses. They generate about 5 percent of all sales and about 10 percent of all income.

\*Partnerships are easy to establish and are subject to few government regulations. They provide entrepreneurs with a number of advantages.

#### **1.3. Corporations:**

Businesses often rely on investment to expand operations. One way for a business to increase investment is to form a corporation. A corporation can grow even larger by combining with other corporations. Some corporations are so large that they do business all over the world.

\*Corporations differ from sole proprietorships, which have no identity beyond that of the owners. A corporation is defined as an "entity" because it has a legal identity separate from those of its owners.

### **2. Stocks and shares**

#### **2.1 What are stocks?**

Stocks are a type of security that gives stockholders a share of ownership in a company. Stocks also are called "equities."

## 2.2 Why do people buy stocks?

Investors buy stocks for various reasons. Here are some of them:

- Capital appreciation, which occurs when a stock rises in price
- Dividend payments, which come when the company distributes some of its earnings to stockholders
- Ability to vote shares and influence the company

## 2.3 Why do companies issue stock?

Companies issue stock to get money for various things, which may include:

- Paying off debt
- Launching new products
- Expanding into new markets or regions
- Enlarging facilities or building new ones

## 2.4 What kinds of stocks are there?

There are two main kinds of stocks, **common stock** and **preferred stock**.

**Common stock** entitles owners to vote at shareholder meetings and receive dividends.

Preferred stockholders usually don't have voting rights but they receive dividend payments before common stockholders do, and have priority over common stockholders if the company goes bankrupt and its assets are liquidated.

Common and preferred stocks may fall into one or more of the following categories:

- **Growth stocks** have earnings growing at a faster rate than the market average. They rarely pay dividends and investors buy them in the hope of capital appreciation. A start-up technology company is likely to be a growth stock.
- **Income stocks** pay dividends consistently. Investors buy them for the income they generate. An established utility company is likely to be an income stock.
- **Defensive stocks** provide a regular dividend and stable earnings, but whose value is not expected to rise or fall very much
- **Blue-chip stocks** are shares in large, well-known companies with a solid history of growth. They generally pay dividends.

## 2.5 What is a Share?

A share represents a single unit of stock. It is the smallest denomination in which the ownership of the company is represented.

## 2.5 Difference between Stocks and Shares

Point of Comparison	Stocks	Shares
<b>Definition</b>	Stocks represent part ownership of a company. A stock is a financial instrument representing part ownership in single or multiple organizations.	A share is a single unit of stock. It's a financial instrument representing the part ownership of a company.
<b>Denomination</b>	The value of two different stocks can be different	The value of each share of a company will be the same
<b>Paid-up Value</b>	Stocks are always fully paid-up	Shares may or may not be fully paid-up
<b>Original Issue</b>	Stocks are not a part of the original issue; shares are later converted to stocks	Shares are a part of the original issue
<b>Types</b>	Stocks are usually divided into two major types- common and preferred stocks. These categories can be further divided into growth, defensive, income, blue-chip etc.,	Shares are categorized into common shares and preference shares.

## 3. Banking

### 3.1. Banking definition:

Is the business of operating a bank or the activity of managing the money in your bank accounts

### Examples:

- The government plans to deregulate the banking industry.
- We offer our customers one-stop banking services and investment advice.
- The collapse of the bank is an ominous reminder of the fragility of the world's banking system.
- More than 70% of jobs in the borough are in service industries, ranging from hotels to banking.
- The redundancies are spread across the clothing, banking and building industries.

### 3.2. Types of banking:

Listed below are the types of banks and their features:

- **A central bank**, reserve bank, or monetary authority is an institution that manages the currency and monetary policy of a country
- **Commercial banks**: Commercial banks are the financial organizations that receive deposits, provide security to the account, and give loans.

- **Retail banks:** A retail bank is a bank that only lends help to small businesses and companies and consumers.
- **Savings and loan associations:** The savings and loan and associations are an institution that mainly helps individuals with their residential mortgages or properties.
- **Community development banks:** The purpose of community development banks is to provide help to individuals that live in low socioeconomic places.
- **Online and neobanks:** Online and neobanks are online banks without physical branches. The bank is popular because anything can be done online, and it is convenient and hassle-free.
- **Credit Unions:** A credit union is an institution that is non-profitable but gives the same basic benefits to its members.
- **Investment banks:** An investment bank serves lots of large corporations, firms and buys shares to resell to investors, and even governments.

**Exercise 1: Answer by “true” or “false” with justification:**

1. A corporation is defined as an “entity” because it has an illegal identity separate from those of its owners.
2. The individuals who decide how to combine land, labor, and capital resources to create new goods and services are called farmers.
3. “Corporations” are the same as “sole proprietorships”, they have no deference between them.

**Exercise 2: Match the words in the box with the definition below**

<p><b>Bankrupt / common shares/ preference shares / liquidation / investors / dividends / blue-chip stocks</b></p>
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1. Buyers of stocks
2. The most common form of shares
3. Insolvent, unable to pay debts
4. The sale of the assets of a failed company
5. Shares that pay a guaranteed dividend
6. The distribution of corporate earnings to eligible shareholders
7. A huge company with an excellent reputation

1	2	3	4	5	6	7

**Exercise 3: Choose the right answer**

A-Which of the following Banks have the largest number of branches right after the State Bank of Algeria?

- |       |        |
|-------|--------|
| 1-CPA | 2-CNEP |
| 3-BEA | 4-BNA  |

B- Which of the Following Entities Decides the Bank Rate?

- |                         |  |
|-------------------------|--|
| 1-Government of Algeria | 2-Securities and Exchange Board of Algeria |
| 3-State Bank of Algeria | 4-Reserve Bank of Algeria                  |

C- Where is the Reserve Bank of Algeria head Office Located?

- |         |               |
|---------|---------------|
| 1-Oran  | 2-Algiers     |
| 3-Setif | 4-Constantine |

D- Which Nodal Institution Solely Focuses on the Aspect of Refinancing for Agriculture and Rural Development in Algeria?

- |        |       |
|--------|-------|
| 1-BEA  | 2-CPA |
| 3-BADR | 4-BNA |