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The banking industry

TYPES OF BANK

1

Commercial and **retail banks** receive and hold deposits.

They lend money, exchange foreign currencies and give investment advice.

They make a profit from the difference between the interest rates they pay to lenders and those they charge to borrowers.

Banks create credit, because the money they lend is generally spent on goods, services or to settle debts.

When bankers lend money, they have to find a balance between yield (profitto) and risk.

2

Investment banks (**merchant banks** in Britain):

raise money for industry,

finance international trade,

deal with takeovers and mergers, (fusioni)

issue (emettere) government bonds.

These banks make a profit from the fees (onorari) and commissions they charge (fanno pagare) for their services.

3

In some European countries (in Germany, Switzerland and Austria) **banks** have always been **universal**.

They combine deposit and loan (prestito) banking with share and bond dealing, and investment services.

Until 1999, in **America** there was a strict separation between **commercial** and **investment banks**.

In **Japan** the separation lasted (durò) until 1998.

In Britain the banking industry was deregulated in the 1990s.

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4

The **central bank** fixes the minimum interest rate. (tasso)

It makes secured loans (prestiti) to commercial banks at this rate (discount rate).

Banks lend to safe (secure) large companies (blue chips) at the base rate or prime rate.

The rate the banks charge (fanno pagare) other borrowers depends on their present and future solvency.

If borrowers have some asset (collateral) they can get a lower (inferiore) interest rate.

5

In most financial centres there are branches of foreign banks doing Eurocurrency business

A Eurocurrency is any (qualsiasi) currency held (tenuta) outside its country of origin.

The first Eurocurrency market was for US dollars in Europe.

Now this name is used for foreign currencies held anywhere in the world (for example yen in the US, euros in Japan).

A central bank can determine the minimum lending rate for its national currency, but it has no control over foreign currencies.

<u>Nota</u>

TO LEND	= **dare** in prestito
LENDER	= uno che **da** in prestito denaro
TO BORROW	= **prendere** in prestito
BORROWER	= uno che **prende** in prestito denaro
CURRENCY	= moneta, valuta

NR. 13

to issue = emettere
bond = buono
share = azione
equity = azione
to rate = valutare

The uses of bonds

When companies need money they can sell shares or borrow, usually issuing bonds.

Companies prefer to issue bonds instead of borrowing from a bank because this is cheaper (più economico).

Companies that issue bonds are rated by rating companies (Moody's and Standard & Poors).

The investment rate can be AAA, the best, and C, the worst.

If a company has a high rating it can borrow at a lower interest rate.

Bonds are liquid, so after they are traded on the primary market, they can be traded on the secondary market.

For a company it is more convenient to finance debt issuing bonds, instead of selling shares, because bond interest is tax deductible.

But there is one problem, bond interest must always be paid, while in a year without profits a company doesn't pay any interest on shares.

When governments need money because they spend more than they get from taxes, they issue bonds.

In Britain these bonds are called gilt, and Treasury Bonds in the USA.

NR. 14

In markets economies the business cycle is a permanent feature (caratteristica).

During a boom, the economy works at full capacity, so production, employment, prices and profits tend to rise.

During a recession, the demand for goods and services decline, and the economy works at below (al disotto del) its potential.

Investment, output, employment and profits, generally fall.

A recession is called a depression or a slump.

The highest point on the business cycle is called a peak.

The lowest point is called a trough (crogiolo), which is followed by a recovery or an upturn.

to fall= cadere, diminuire.

NR. 15

THEORIES FOR THE BUSINESS CYCLE

Internal theories consider a business cycle self-generating, regular and indefinitely repeating.

A peak is reached when people begin to consume less.

Some theories suggest that a business cycle results from people infecting one another with optimistic or pessimist expectation.

When times are good and people feel good about the future, they spend more.

When interest rates are high and people spend more on their mortgage (impoteca), they consume less. And if people think that they may lose (perdere) their jobs, they save more.

Investment depends on consumption, so as soon as (appena) demands stops growing, investment will drop (cadrà, diminuirà).

Another theory is that during every period of growth, employees will begin to demand higher salaries. As a result employers either reduce investment or lay off (licenziano) workers, and so a downswing (recessione) will begin.

External theories look for causes outside economic activity:

scientific advances, natural disasters, elections or political shocks.

Joseph Schumpeter believed that the business cycle is caused by important technological inventions: the steam engine (il motore a vapore), railways, cars, electricity, microchips etc.

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SHOULD THE GOVERNMENT INTERVENE IN THE BUSINESS CYCLE?

KEYNESIANISM

In *The General Theory of Employment, Interest and Money* (1936), Keynes argued (sosteneva) that market forces could produce an equilibrium with high unemployment of indefinite duration.

For example, if people are worried (preoccupate) about losing their jobs, they start saving and consuming less. This will cause a fall in demand, and consequently in production and employment.

Classical economic theory stated (affermava) that excess savings would cause interest rates to fall (cadere – diminuire) and investment to increase (aumentare).

Keynes disagreed (discorda) with this theory.

He recommended governmental intervention in the economy to counter (per controbattere) the business cycle.

During a boom, governments could (potrebbero) decrease (diminuire) their spending or increase (aumentare) taxation.

During a recession, they could increase their expenditure, or decrease taxation, and reduce interest rates to stimulate the economy and increase investment, consumption and employment.

Monetarism

In the 1950s and 1960s, monetarists, notably Milton Friedman, said that Keynesian fiscal policy had negative effects.

They said that money is neutral, and has no effect on output and employment.

They said that government should not manage the level of output in the economy through (per mezzo di) fiscal policy.

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Monetarists argue that recessions are caused by errors by firms and workers who do not reduce their prices and wages when demand falls.

When economic agents see that prices and wages have to (debbono) fall, the economy will come back to normal.

Governments will not be able (non potranno) to recognize a coming recession faster than companies, their fiscal measures will take effect when the economy is already recovering, and so it will make the next swing in the business cycle even greater.

Neo-Keynesianism

Classical and neo-classical economic theory assumes that prices and wages are flexible enough to eliminate excess supply (offerta) and demand.

Neo-Keynesians say that since (siccome) individuals and firms are unable to find the right prices that would lead the economy to rising output and high employment, economies can remain in disequilibriums for long periods, so government intervention is necessary.

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THE TRHREE SECTORS OF THE ECONOMY.

The economy consists of **three sectors**:

- The **primary sector**: the agriculture and the extraction of raw materials from the earth.
- The **secondary sector**: manufacturing industry, in which raw materials are turned into finished products (although many of the people working for manufacturing companies do not make anything, but provide a service, such as law, finance, administration, selling, marketing, computing, and so on).
- The **tertiary sector**: the commercial services that help industry produce and distribute goods to the final consumers, such as education, health care, leisure, tourism, and so on.

MANUFACTURING AND SERVICES.

Two hundreds years ago, the vast majority of population lived in the countryside and worked in agriculture. Today, in the advanced industrialized countries, only 2-3% of the population earn their living from agriculture.

Some people talk about the post-industrialist countries because of the growth of services industries, and the decline of manufacturing, which is moving to the developing countries.

THE LIMITS OF ECONOMIC FREEDOM

A person is economically free, if he can do what he wishes with his own property, time and effort.

In all communities, of course, limits are set upon this personal freedom, and these limits are in some countries very complex, but in others they are relatively simple.

All individual citizens are required to conform to the law by their governments. Complete economic freedom can cause great difficulties, because the freedoms of various individual will conflict.

Such economic freedom could create a very unstable economy.

Laws related to economic conditions are sometimes concerned with worker's health, wages and pensions and sometimes with the location of places of work.

They are sometimes concerned with contracts between employers and employees. Sometimes they protect the interests of the workers, while at other times they help the employers.

THE CENTRALITY OF MARKETING pag. 1

1. Most management and marketing writers distinguish between **selling** and **marketing**.

The **selling** concept assumes that consumers have to be persuaded by hard-selling techniques to buy non-essential goods or services.

The **marketing** concept assumes that the producer's task is to find **wants** and fill them.

In others words, as well as satisfying existing needs, marketers can also anticipate and create new ones.

The markets for the walkman, c.d., mountain bike, videogame, the internet, and so on, for example, were largely created rather than identified.

2. Marketers are always looking for market opportunities which are generally isolated by market segmentation.

Once a target market has been identified, a company has to decide what goods or service to offer.

This means that much of the work of marketing has been done before the final product or service comes into existence and it has to be understood by all the company.

The company must also take into account the existence of competitors, who always have to be identified, monitored and defeated in the search for loyal customers.

3. So, most companies undertake market research in GB or marketing research in US.

They collect and analyse information about the size of a potential market, about consumers' relations to a particular product or service features, and so on.

Sales representatives are another important source of information.

pag. 2

THE CENTRALITY OF MARKETING

4. The company has to think about the marketing mix.

The best-know classification of these elements is the 'four Ps': **product, place, promotion** and **price**.

Products include quality, features, style, size, services and so on.

Place includes such factors as distribution channels, locations of points of sale, transport, etc.

Promotion includes advertising, publicity, sales promotion, and personal selling.

Price includes the basic list price, discounts, the length of the payment period, and so on.

It is the job of a product manager to change the marketing mix.

5. Quite apart from a consumer market there exists a producer or industrial or business market, consisting of all the individuals and organizations that acquire goods and services that are used in the production of other goods, or in the supply of services to others.

The producer market is actually larger than the consumer market. There is consequently more industrial than the consumer market.

ECONOMIC ACTIVITY.

Most people work in order to earn their leaving.

They produce **goods** and **services**.

Goods are either produced on farms, like maize and milk, or in factories, like cars and paper.

Services are provided by such things as schools, hospitals and shops.

The work which people do is called their **economic activity**.

Economic activities make up the economic system, which is the sum-total of what people do and what they want.

The economic activity which people undertake either provides what they need or provides them with money.

People buy essential commodities with money.

DIFFERENT ECONOMIC SYSTEMS

Not all economic systems are the same.

The economic system of the United States is very different from the previous economic system of the Union of Soviet Socialist Republics.

The American system is based on private enterprise, while the Russian system was based on the principles of Karl Marx.

Karl Marx was a political economist who lived in the 19th century.

The American system is capitalistic, while the Russian system was communistic.

The economic ideologies of these two nations differed very much from each other.

While the economic system of Britain is similar to the American system.

Britain has an economic system based on private enterprise and private supplies of capital.

Property of Britain and American can owned by individual citizens. The economic freedom of citizens of Britain and America is not complete freedom. Citizens must obey the law, but otherwise they can use their time, money and effort as they wish.

PRODUCTS AND BRANDS

1. Marketing theorists say that a product is something capable of satisfying a need or want. So, products are services, activities, people, places, organization, ideas, as well as physical objects.

Physical products can usually be augmented by benefits, customer advice, delivery, credit facilities, a warranty or guarantee, maintenance and so on.

2. Some manufactures use the family name for all their products. Others, market various product under individual brand names.

Some producers of soap powders are famous for their multi-brand strategy which allows them to compete in various market segments, leaving less room for competitors.

3. Most manufactures produce a large number of products, often divided into product lines. Most product lines consists of several products, often distinguished by brand names.

Together, a company's items, brands and products constitute its product mix. But opportunities and resources are in constant evolution, thus companies are always looking to the future, and re-evaluating their product mix.

4. Companies whose objectives include high market share and market growth, generally have long product lines, for example a large number of items.

Companies whose objectives is high profitability will have shorter lines. Additions to product lines can be the result of either line-stretching or line-filling.

Line-stretching means lengthening a product line by moving to either up-market or down-market.

Yet such moves may cause image problems: moving to the lower end of a market dilutes a company's image for quality.

Line-filling means adding further items in that part of a product range which a line already covers. It might be done in order to compete in competitors' niches, or simply to utilize excess production capacity.

NR. 10 HOW COMPANIES ADVERTISE

Advertising informs consumers about products and services and tries (cerca) to persuade them to buy them.

The best way (modo) of advertising is when people tell their friends about the benefits of products and services they have bought (comprato).

But most (la maggior parte dei) providers use paid advertising.

Although (sebbene) large companies could have their own (propri) advertising departments, they tend to use the services of large advertising agencies.

These agencies have more knowledge about advertising than a single company.

Besides (inoltre), the most talented advertising people prefer to work for agencies rather than (piuttosto che) individual companies, because this gives them the chance (l'opportunità) to work on advertising many different products and services.

A company usually tells the advertising company how much they want to spend, and what are the objectives of their advertising campaign.

The agency creates advertisements (abbreviated to *adverts* or *ads*) and specifies which media will be used – newspapers, magazines, television, cinema, poster etc. and in which proportions.

Sometimes, before the final choice (scelta) for a national campaign, they pre-test the advertisements in newspapers, television etc.

The agency's media planners must decide what percentage of the target market they want to reach, and how many times the ads will be seen (saranno visti).

For companies it is very difficult to decide how much to spend on advertising. Some spend as much as (tanto quanto) their competitors. Some spend a percentage of their sales revenues (delle loro entrate delle vendite).

Excessive advertising is counter-productive, because after too many exposures people stop noticing the ads, or they find them irritating.

NR. 11 Promotional strategies

THE FOUR MAJOR PTOMOTIONAL TOOLS

Every product, even (persino) a very good one, will not sell by itself.

Potential customers, distributors, dealers and retailers must be informed about the product's existence, its features (caratteristiche), its advantages, and so on.

To promote a product, marketers must decide which tools they should (dovrebbero) use – advertising, public relations, sales promotions etc.

Public relations try to improve and protect the image of a company or product.

Publicity (non paid mention of a product) is the most important element of public relations.

Many companies try to place stories or information about a product or service in news media.

Publicity can achieve (ottenere) more than advertising, because people usually read and believe (credono) publicity more than advertising.

Sales promotions such as free samples (campioni gratis), price reductions, competitions, and so on, try to stimulate sales of a product.

Free samples and advertising may generate the initial channel of a new product.

The trial stage (la fase di prova) of the life cycle of a product may last (durare) many years.

During this time marketers can try many promotional strategies. To attract price-conscious customers they can sell reduced-price packs in supermarkets.

Sales promotions can also be aimed (diretti) at distributors, dealers and retailers, to encourage them to stock new items (articoli), or to encourage off season buying, or to strengthen (rafforzare) brand loyalty among retailers.

Personal selling is the most expensive promotional tool.

Since (giacchè) a salesperson is often the only person from a company that costumers see, they are a very important medium of information.

The majority of new product ideas come from customers via salespeople.

NR. 5 WHAT IS MANAGEMENT?

Peter Drucker, a business professor, suggests that the work of a manager can be divided into planning, organizing, measuring and developing people.

First of all, managers set objectives and decide how their organization can achieve them.

They develop strategies, plans and tactics and allocate resources, people and money.

Secondly, they organize, analyse, and classify the activities of the organization and the relations among them. They divide the work into manageable activities and then into individual jobs. They select people to a manage these units.

Thirdly, managers practise the social skill of motivation and communication. They have to make the people who are responsible for performing jobs form teams. They make decisions about pay and promotion.

Fourthly, they have to measure the performance of their staff, to see whether the objectives of the organization and of individual members are being achieved.

Lastly, managers develop people, both their subordinates and themselves.

Objectives occasionally have to be modified. The job of a top manager is to consider the needs of the future, and to take responsibility for innovation.

Top managers have to manage a business' relations with suppliers, distributors, customers, bankers, public authorities, and so on.

Top managers are appointed (nominati) and supervised and dismissed (licenziati) by a company's board of directors.

Management is not entirely scientific; it is a human skill.

Drucker believes that intuition and instinct are not enough, there are management skills that have to be learnt.

He wrote that the days of intuitive management are numbered. Some people are good at management, others are not. Some people will be unable to put management techniques into practice. Others will have lots of technique, but few good ideas.