Banking

Banks are financial institutions that provide customers with a variety of valuable services, including the ability to wire money to a person or company, the ability to store money in a checking or savings account, the ability to collect interest on investments, the ability to receive loans, and much more.

Banks are most commonly used by customers who wish to store their money and access it as needed, with a **debit card** (a card that's simply attached to the funds in one's account), or **checks** (individually numbered paper slips that can be used to designate a transfer of funds). **Checking and savings accounts** are the primary means of storing money in a bank; a checking account is designed to house money that will be spent, while a savings account is designed to house money that will be saved. Banks usually pay a small amount of **interest**, or a payment in the form of a percentage of a customer's deposited balance, to customers. This is their way of showing support for clients who entrust them with their money.

These funds are then used by banks, along with their credit, to perform other functions and offer additional services. For example, many customers use banks to secure **home mortgages**, or multiyear loans through which ownership (or **equity**) of a home is achieved. Customers demonstrate that they're able to pay a mortgage back (usually by providing proof of income and investments, in addition to a **down payment**, or a lump sum paid up front), and select a time period for this mortgage; short mortgage payment periods require larger monthly payments, but customers are charged less interest, while longer mortgage payment periods require smaller monthly payments, but customers are charged more interest.

Lastly, many banking customers request a **personal loan**. Personal loans are loans issued and approved by financial experts that're designed to be used by customers for specific purposes. For example, one may secure a personal loan for a business plan or an automobile. Personal loans, like home mortgages, are issued based upon a customer's ability to pay the borrowed sum back; banks also charge a small amount of **interest**, meaning in this case a percentage of the borrowed money extra, besides its core balance.

Investing

Stocks, bonds, and other investments are ultra-useful financial tools that allow investors (or anyone who's willing to make educated, cash-backed financial decisions) to increase their worth and become part of today's fast-moving business landscape.

Stocks are pieces of ownership of publically traded companies that clients purchase with the hopes of turning a profit, and (ideally) after conducting much research as to a company's revenues, business model, and more. Stocks are purchased through the stock exchange, and specifically, through a **stockbroker**, **brokerage firm**, or licensed **trading website**.

Shares of a company are always being bought and sold by individuals, and accordingly, there's never any delay in processing a transaction. A company's stock price will conceivably rise following positive reports and profit data, and as a result, individuals who purchased a stock at a lower price will benefit from this price increase (as the shares they bought will each be worth more). Some stocks also pay **dividends**, or small, scheduled payments, to clients.

Bonds are essentially pieces of debt purchased by clients in exchange for interest. Government bonds can be bought for set prices, and after they've matured, investors can claim more money than they input initially; their benefit is obvious, and for the government,

the perk of having liquid cash is significant. Corporate (company-issued) and municipal (state or local-government-issued) bonds similarly provide short-term cash for the issuers and long-term boosts for investors. As was indicated, however, many bonds cannot be freely backed out of (as stocks can), and investors who sell before maturation will be subjected to penalties of varying severity.

Investing smartly in stocks and bonds is a great way to increase one's worth, plan for retirement, and play an active role in the financial landscape.

The Stock Market

In conversation, media, and the news, it's common to hear talk of "the market," short for the stock market. And while most everyone knows about the stock market, once again, few actually know what it is, how it functions, and what purposes it serves.

The **stock market** is the platform through which **shares** — or pieces of ownership of a **company** — are bought and sold by **investors**; investors who own shares of a company are referred to as **shareholders**. Thus, the stock exchange allows investors to potentially improve their worth (provided the **stock price** of their investments increases, or provided they receive **dividends**, or small, pre-planned payments from a company paid to shareholders), and companies to have the benefit of being publically operated, and also, for company founders to cash-in on stock (by selling their shares of the company once it goes public).

Trading shares is a relatively straightforward process. Through a licensed **stockbroker**, **brokerage firm**, or **trading website**, one simply places an order for the desired number of stock in a designated company; a small fee is usually paid to the party responsible for performing the trade (be it a person, firm, or website). There is always another individual looking to sell or buy a particular stock, given the magnitude of the exchange, and there are therefore almost never delays in the process. There are also a number of other, more complex stock purchase and sale types for buyers and sellers to choose from.

Anyone who owns stock in a company owns a piece of its assets relative to their share count. For example, a company with a stock limit (which is determined during an **IPO**, or initial public offering, wherein a company's initial price and stock count are set before it debuts on the exchange),of 100 (hypothetically speaking, of course) would be 25% owned by an individual who possessed 25 shares.

B2B versus B2C

B2B stands for Business to (2) Business and refers to a Business selling goods or services to another Business. In the B2C (Business to Customer) model, the end user is an individual.

The result is the same for the company; they sell their product or service. However, the Business Model and the Marketing strategies are quite different.

A simple example is a farmer who grows strawberries. He can sell his entire crop to a retailer or distributor for a discounted price, in one easy transaction (B2B). Or he can set-up a small farm shop and sell punnets of strawberries to individual consumers at a higher price (B2C). The B2C model generates more money for his strawberries but requires a lot of his time.

With the B2B model, the Business needs to set-up long-term, trusted relationships with other Businesses. The B2C model requires marketing, brand recognition and advertising to attract customers.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP), or the measure of all the products made, services offered, and business conducted in a country over a set period of time, is another one of those business terms that's frequently referenced but seldom understood. Once again, GDP is simply a calculation of the business that's taken place in a country annually. The United States, for example, has the largest GDP in the world, thanks to its free market and large population; other nations have solid GDPs as well, and the exact number usually corresponds to its country's economic system, development, natural resources, education, and more.

Similarly, the process of **calculating GDP** is simple and straightforward. GDP is comprised of "private consumption + total investments + government investments + government spending + the value of exports minus imports." In other words, gross domestic product, which is once again the measure of all the business that's taken place in a country over a period of time, is determined by adding together money spent on private consumption, personal investments, government investments, government spending, and the value of exports (minus imports, so that the total reflects the trade agreements that give money to the country at-hand).

Lastly, **nominal GDP** refers to a specific year's gross domestic product purely in terms of production, while **real GDP** accounts for inflation, and is typically consulted by economists attempting to contrast a country's current output with those of the past.

Inflation

Anyone who has ever wondered why today's prices are so much higher than those of 100, 50, and even 25 years ago have actually considered the effects of **inflation**, or the decrease in value relative to overall quantity and production.

To explain this definition, let's consider why today's prices are higher than those of the past. As the world population has grown, central banks, or the institutions tasked with managing countries' economies, have responded to this growth by **minting**, or officially creating and releasing, more money. Their reasoning for this course of action is that not having enough money in circulation could lead to **panics**, or economic downturns that're usually accompanied by anxiety over currency.

So, to reduce the chances of a panic and assure that today's citizens have access to physical money, central banks release more dollar bills and coins regularly, based upon a pre-planned schedule. As additional currency has come into circulation, its value has decreased; this is the process of inflation.

To better understand the idea of inflation, consider the following example: if children that enjoy trading marbles implement a value system where red marbles are fairly common, grey marbles are rarer, and green marbles are the rarest, because there are more of the first type, fewer of the second type, and fewer of the third type, the system will be stable until more marbles enter into circulation. Thus, by tripling the number of marbles in circulation, they will all become significantly less valuable.

What this means for consumers is that the money that they earn is worth less over time, and essentially, even though their wages might increase in amount, they will have a lesser purchasing power, or a measure of how many goods and/or services it can be exchanged for.

Lastly, **deflation** is the process of a currency becoming more valuable due to a tight production schedule. If there was less currency around today, each dollar would be worth more—just as was the case many years ago, when some products could be purchased for pennies!

Supply and Demand

In the business world, it's common to hear and see references to supply and demand. With that said, few individuals possess a thorough understanding of the idea and its wide-ranging impact on markets, prices, and consumers. In short, **supply and demand** refers to the force of consumers (or how much customers want or need to buy something) in relation to the available supply (or how much of something companies are able to sell). Generally speaking, **high demand** results in **limited supply and increased prices**, and **low demand** results in an **ample supply and decreased prices**.

This latter phenomenon - the correlation between supply and demand and prices -might sound confusing at first, but it's actually rather simple. When there isn't enough of something available for sale to satisfy demand (or so that everyone who wants this "something" can simply purchase it), manufacturers, or businesses that produce a product or products, charge more; they are able to do so because they aren't faced with competition (as whatever they're selling is in demand and presumably not offered by many other businesses), and customers are willing to pay more to secure said product. Inversely, if something is available in abundance, companies will have to contend with competition, or actions taken by a company that're designed to improve its market standing, sales, and ultimately, profits.

An example will make the concept of supply and demand entirely clear. Imagine that a company creates a fantastic video game system that many customers want to buy. Demand will build both naturally and as the product isn't available to buy (this marketing technique is utilized by many companies today; not being able to purchase something seems to create consumer buzz), and if the supply doesn't increase to give every willing customer a system, prices will rise. In other words, if customers have no other way to buy the system than through its manufacturer, and are having a hard time finding the system to buy, they'll be willing to pay more to buy it.

On the other side of the coin, a product that's not proprietary, is widely accessible, and can be sold by any company - pasta, for instance - will be manufactured, marketed, and sold by a number of businesses. One company might sell a box of pasta for $10, and another company could respond to this price by selling their own pasta for six dollars, and another company could sell their pasta for four dollars, and so on and so forth until the price has been driven down to a very affordable rate. Demand won't be particularly high in this scenario, as there will be plenty of the product at-hand to go around. Moreover, demand comes before competition; if demand is relatively low because a supply is high, prices will fall and some degree of competition will occur.

Unemployment

Nobody - including business professionals and those who want to be employed - enjoys talking about unemployment, or the state of being out of work for those who are fit to hold a job, but it's an important consideration of the financial industry. The **unemployment rate**, or the official percentage of work-eligible persons who aren't currently hired, is often used to gauge the health of an area's economy generally; broadly speaking, a high unemployment rate indicates a poorly performing economy, while a low unemployment rate indicates a solid economy.

With that said, an unemployment rate of zero percent, meaning that every single eligible individual in an area is employed, is entirely unrealistic, and will never be seen. **Full employment** refers to an unemployment rate wherein almost every eligible employee is working, and a rate wherein few additional individuals can be expected to work. The common reasons for these persons not working could include their coming into an abundance of wealth but temporarily deciding against retirement, and their choosing for personal reasons (such as caring for a family member) not to seek employment. Generally, an unemployment rate of just five percent or so is indicative of full employment. Accordingly, when the national or statewide unemployment rate is somewhere in the ballpark of five percent, it means that few individuals are unable to find work.

Utility

In today's quick-moving and information-driven learning settings, it's not difficult for students of business and economics to become experts on rather advanced terms and ideas, while not fully understanding more basic matters; and when they try to learn these basics, students are often embarrassed because they aren't already familiar with them.

Utility, or the state of being beneficial and useful, falls under this category; many highly intelligent business students understand that market trends result directly from supply and demand, but other wonder why exactly there is demand in the first place.

The explanation is straightforward: **demand**, or the desire or need of consumers to own a certain product or receive a certain service, exists because these goods and services provide customers with advantages, pleasure, or other fulfillment. In short, demand exists because people naturally want to buy things that improve the quality of life! Demand has existed and will always exist; even if everyone gave up their hobbies, made their own food, and lived simply, they would still "demand" sharp axes to cut wood, and big stoves to cook with, and strong materials to build with, and so on.

In conclusion, demand exists because of the universal human desire to be comfortable, well-off, and content. This is the utility of goods and services, and this is why the overall business cycle will never be completely reinvented; its origin is rooted in human interest.

Business Cycles

It might seem somewhat random when the economy encounters a downturn, companies struggle, and prices rise, but the process is actually the direct result of a number of specific factors, including business cycles. **Business cycles** refer to the periods of various success, struggle, and medium-quality profits encountered by companies in the normal course of the economy; these periods affect every individual. In other words, businesses may offer a service at an affordable price at one point in time and fail to become profitable, but may then see this same service bring in tons of cash at a later point; the difference isn't the business, but rather, is the economy.

When the economy is “’good” - something that’s characterized by low unemployment, low inflation, rising wages, and more - most businesses experience a **boom**, or an increase in profits and success. There are once again a variety of factors that contribute to booms (some of which are uncontrollable), but the short explanation of the occurrences is that when people have more money to spend, businesses have more money to make.

Similarly, businesses experience a **bust**, or a decrease in profits and success, when the economy falters. For most people, a sagging economy means it might be hard to find work and pay bills; for businesses, a sagging economy means it might be difficult to stay in operation.

Business contractions, or normal periods of reduction in business after prolonged growth, occur regularly and vary in severity. Eventually, employers will require a smaller amount of help because consumers are purchasing less (after all, almost nobody buys new and expensive things all the time), unemployment will accordingly increase, wages will fall, and so on and so forth.

Recessions, or multi-month-long declines in wages, general economic activity, and most importantly, GDP, are more serious than business contractions. Recessions last longer than business contractions, can be more severe, and can signal larger problems in the economy.