Money and banks

Before you read

Discuss these questions with your partner.

→ What is money?

→ Can anything be used as money?

→ Could stones and leaves be used instead of coins and notes?

A Vocabulary

Choose the correct word or phrase.

1 One reason why people buy gold is because it **holds its value / is taken for granted**.

2 When we buy things, we **swap / represent** money for goods.

3 Diamonds are valuable because they are so **intrinsic / rare**.

4 The dollar is the **cash / currency** of the USA.

5 When people **barter / guarantee** goods, they simply exchange one good for another.

6 Banks will only lend to people who can **guarantee / barter** to pay back the loan.

7 Some shops won't accept credit cards. They will only take **cash / currency**.

8 When something **holds its value / is taken for granted** people don't think it has great value.

9 Coins and notes are used to **swap / represent** value.

10 Metals have **intrinsic / rare** value because they can be used to make things.

11 If money can easily be moved around and used we say it has **liquidity / currency**.

12 Centuries ago people paid using **commodity money / fiat money**, such as gold and silver.

13 **Commodity money / Fiat money**, like banknotes and coins, has no intrinsic value. It only represents value.

Reading 1

Money

The cash we use every day is something we take for granted, but for thousands of years people traded without it. Before money was invented, people used a system called *bartering*. Bartering is simply swapping one good for another. Imagine that you have milk, for example, and you want eggs. You simply find someone who has eggs and wants milk – and you swap! However, you can see that this isn't a very convenient way to trade.

First of all, you can't be sure that anyone will want what you've got to offer. You have to hope that you'll be lucky and find someone who has what you want and that he or she wants what you've got. The second problem with bartering is that many goods don't hold their value. For example, you can't keep your milk for a few months and then barter it. Nobody will want it!

After some time, people realised that some goods held their value and were easy to carry around and to trade with. Examples were metals like copper, bronze and gold and other useful goods like salt. These are examples of *commodity money*.

With commodity money, the thing used for buying goods has inherent value. For example, gold has inherent value because it is rare, beautiful and useful. Salt has inherent value because it makes food tasty. If you could buy things with a bag of salt, it meant you could keep a store of salt and buy things anytime you needed them. In other words, commodity money can store value.

Using commodity money was much more convenient than ordinary bartering, but it still had drawbacks. One of these drawbacks is that commodity money often lacks *liquidity*. Liquidity refers to how easily money can circulate. There is obviously a limit to how much salt you can carry around! There's another problem with commodity money: not everyone may agree on the value of the commodity which is used as money. If you live by the sea, salt may not be so valuable to you. Money needs to be a good *unit of account*. In other words, everyone should know and agree on the value of a unit. This way, money can be used to measure the value of other things.

The solution is to create a kind of money that does not have any real intrinsic value, but that represents value. This is called *fiat money*. The coins and notes that we use today are an example of fiat money. Notes don't have any inherent value - they are just paper. However, everyone agrees that they are worth something. More importantly, their value is guaranteed by the government. This is the reason why pounds and dollars and the world's other currencies have value.

B Comprehension

Complete the table with information from the text.

	Examples	Advantages	Disadvantages
Bartering	swapping eggs for milk	simple to understand	not .... way to trade goods don't ....
Commodity Money	.... and	allows you to store	not .... agrees on its value lack of liquidity means money can't .... easily
Fiat Money	.... and	value is .... by the government	

Before you listen

Discuss the following with your partner.

You're going to listen to someone talking about the history of money. Before you listen, read through the statements below. Do you think they are true or false?

1 The earliest kind of money was used about 3,000 years ago. T ☐ / F ☐

2 Shells were used as a kind of fiat money. T ☐ / F ☐

3 The first metal coins appeared in Greece. T ☐ / F ☐

4 The first coins were round. T ☐ / F ☐

5 Paper money first appeared in China. T ☐ / F ☐

6 The idea of paper money travelled quickly to Europe. T ☐ / F ☐

C Listening

Now listen and check your answers.

Before you read

Discuss the following with your partner.

→ What do banks do? Work with a partner to make a list of all the services that banks provide. Then compare your list with others in the class.

D Vocabulary

Complete each sentence with a word or phrase from the box.

accessible	**ATM**	**compensate**
deposit	**make a living**	**reliable**
security	**sensible**	**transfer**
withdrawal		

1 As .... against possible burglaries, they installed alarms.

2 Some people aren't very .... with their money and they waste it on useless things.

3 If you are injured at work, you may get money to .... for losing your salary.

4 If something is .... , you can trust it to work properly.

5 .... things are easy to reach or to get.

6 When you .... things you move them from one place to another.

7 An .... is a machine that gives customers money when the bank is closed.

8 Most people have to work in order to ....

9 When you make a .... , you put money into your account.

10 When you make a .... , you take money out of your account.

Reading 2

Banks

If you work, you've probably got a bank account. You could keep the money you earn each month in a box under your bed, but it wouldn't be very sensible. One reason is that it's not very safe. If your house gets burgled, you'll lose everything you've saved. Another reason is that your money will lose value.

As prices rise, the money in a box under your bed will be able to buy fewer and fewer things. Money in a bank savings account, however, will earn interest. The interest will help compensate for the effect of inflation. But banks are more than just safe places for your money. What other services do they offer?

The other main service is lending money. Individuals and businesses often need to borrow money, and they need a lender that they can trust. This is exactly what banks are – reliable lenders. In fact, most of the money that people deposit in their bank accounts is immediately lent out to someone else.

Apart from storing and lending money, banks offer other financial services. Most of these are ways of making money more accessible to customers. For example, banks help people transfer money securely. They give customers cheque books and credit cards to use instead of cash. They provide ATM machines so that people can get cash any time of the day or night.

But how do banks make a living? Basically, they make a living by charging interest on loans. Of course, when you make a deposit into a bank savings account, the bank pays you interest on that money. However, the rate they pay savers is less than the rate they charge borrowers. The extra money they make by charging interest on loans is where banks earn most of their money.

For banks, interest is also a kind of security. Sometimes people do not pay back money they borrow. This is called *defaulting on a loan*. When someone defaults on a loan, the bank uses money earned from interest to cover the loss.

All of this means that most of the money people have saved in the bank is not there at all! A small amount of the total savings is kept by the bank so that customers can make withdrawals. The rest, however, is made available for loans. The amount that is kept is called the *reserve*. The reserve must be a certain percentage of all the savings received from customers – for example 20 per cent. This figure is set by the central bank, and this is one of the ways that governments can control the amount of money circulating in the economy.

E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

1 What two reasons are given for saving your money in a bank account?

2 Why do people prefer to borrow money from banks?

3 Do banks do anything else for their customers other than store and lend money?

4 How do banks earn money?

5 Who decides how much money the bank keeps in reserve?

Notes:

Before you listen

Discuss these questions with your partner.

If a bank note is not real, we call it a *fake* or *counterfeit* note.

➔ How do you know if a banknote is real or not?

➔ What can banks do to make people trust their notes and coins?

F Listening

Look at these notes about whether a ten-pound note is genuine or not and see if you can guess what goes in the gaps.

Paper is very **(1)** ....

The words **(2)** .... are raised from the paper.

There should be a strip of **(3)** .... in the middle of the note.

There is a watermark of the **(4)** ....

There is a hologram which shows a picture of Britannia, who was a **(5)** .... , and the **(6)** ....

With a magnifying glass you can see the word **(7)** .... written in tiny microlettering.

If you put the note under fluorescent light, a bright **(8)** .... number ten will appear.

Now listen and check your answers.

G Speaking

Discuss these questions with your partner.

- Can you imagine life without money?
- What are the dangers of using a credit card to pay with instead of money?
- What do you know about digital money?

Task

Give a two-minute presentation on the history of money. First, read through text 1 again and make notes below on the following.

- bartering
- commodity money
- fiat money

You can also include recent developments not mentioned in the text, such as credit cards and digital money.

Notes:

H Writing

Write a promotional leaflet for a bank. The aim of the leaflet is to attract new customers and to inform existing customers about the services the bank offers.

Use an informal, friendly style like you see in advertisements. Organise the leaflet using the plan shown here.

Promotional leaflet

PARAGRAPH 1

Give a brief history of the bank and say how big it is today (to give confidence to customers).

PARAGRAPH 2

Explain what your main services are, and what advantages you offer compared to other banks (for example, interest rates).

PARAGRAPH 3

Say what other services you offer and how they can be useful to your customers: for example, special savings schemes for certain people (students / pension schemes for workers) and Internet banking.

PARAGRAPH 4

Say how customers (or potential customers) can contact the bank (e-mail, web page, phone number, local branches, etc).

Write 200-250 words