Money and FM Glossary

Share, stock / Security; unit of ownership of a company which entitles the holder to receive dividends. Serves the issuer as a means of financing and is traded on the stock exchange. //

Bond / Security entitling the holder to interest and debt repayment. Issued by companies or states for financing. Holders of bonds are creditors. //

Bail-in / As a result of a financial crisis the creditors (banks, investment funds etc.) are involved in bearing the cost of the crisis; opp. of bailout. //

Bailout / In the aftermath of a financial crisis creditors' claims are satisfied by the provision of international standby credits, therefore creditors do not participate in crisis management. //

Bancor / The name Keynes used for a possible international currency (global currency) during the negotiations of Bretton Woods. //

Bank for International Settlements (BIS) / This 'Bank of Banks' based in Basel is a central organisation for statistical data acquisition and regulation of international financial transactions. //

Clearing / By clearing the bilateral net debt between buyers and vendors after a transaction on the stock exchange is determined. This task is usually carried out by a central institution, the so-called clearing house. After a trading day is over the clearing house informs its members about their transactions as well as the resulting claims and accounts payable. In the case of trading with forwards it will indicate the payable margin. //

Derivative / A derived financial instrument, the price development of which is dependent upon the price development of an underlying basic instrument (e.g. shares, commodities, exchange rates, indexes). E.g. an option on a share; its value is directly dependent on the quotation of the underlying share. //

Foreign exchange / Drafts payable at locations abroad in a foreign currency, as well as promissory notes and cheques in foreign currencies payable abroad. //

Financial market / All markets on which actors trade with capital; in contrast to goods markets. On the one hand there are national and international financial markets, on the other hand, according to the financial instrument traded in, there are money, credit and capital markets and the foreign exchange market for currency exchange. Thus, financial markets are particular markets on which capital in the form of money, securities and other financial contracts is traded in. Investors (savers) provide capital surplus and capital acquirers (debtors) demand these funds. Financial markets directly link investors to capital acquirers or also indirectly via financial intermediaries. //

Forward contract / Basic form of a derivative or a futures contract. Contract signed today about an economic transaction (purchase or sale of an object such as currency or stock) to be performed at a fixed future date at a predetermined price. Always containing an element of speculation since the future is uncertain. //

Fundamental data / Data which is usually used to describe the state of an economy. This includes productivity, inflation, interest rates, unemployment rates, national debt, balance of trade. //

Futures contract / Forwards traded on the stock exchange. //

Money / Basis of all economic transactions. Each good is eventually expressed in monetary units. 3 functions: means of exchange, store of value and unit of account. Up to the 20th century physical real values (usually gold) were a direct or indirect means of payment. Ever since the early 1970s money is barely backed by real values and keeps its function by law. Only cash, in other words bank notes and coins, is a legal means of payment; everything else (book money, savings etc.) is only considered similar. //

Leverage / Financial speculations are funded by loans. Therefore speculators do not use any of their own capital. Loans are paid back by means of profits made in speculations or by new loans. //

Hedge funds / Financial intermediaries which are subject to very few regulations and are often based in offshore banking centres. Hedge funds speculate with very large sums of money and take great risks. //

International insolvency law / Legislation aiming to help overcoming a debt crisis in case of a state's inability to service its debts. Debtors and creditors should both equally take part in covering the costs of insolvencies.

Investment fund / Particular form of an institutional investor who directs private monies to different kinds of investments (e.g. property fund, savings fund etc.).

Funded pension system / Form of funding for future pensions by means of high-yield capital investment on the capital markets today (opp. pay-as-you-go system).

Share value / Market price for securities, foreign currencies and goods.

Liquidity / A market is liquid if an asset in a customary quantity can be sold any time for another asset.

Market capitalisation / Market capitalisation (market cap) of a business enterprise equals the share price multiplied by the number of outstanding shares of the enterprise. E.g. 1m shares at €50 each equals a market capitalisation of €50m. Market capitalisation determined in this way, however, does not reveal the actual value of an enterprise which can be determined approximately by means of the various methods of stock evaluation. It is merely the result of the interaction of supply of and demand for the company's shares. However, supply and demand is of course largely influenced by the expectations of market participants regarding the company's future earning power.

Offshore centres / Locations free of tax liability and regular state supervision of banking. There are no obstacles to tax evasion or money laundering, e.g. New York, London, Singapore, the Caribbean.

Option / A basic form of a derivative instrument. The purchaser of an option acquires the right to buy (call option) or sell (put option) a certain object (currency, shares etc.) at a future date at a given price by paying an option premium. The buyer of the option is not obliged to exercise the option. The seller has to meet the obligations if instructed to.

OTC (over the counter) / Trade of financial instruments not listed on a stock exchange. Not subject to regulations of supervision bodies and is therefore particularly prone to crisis.

Private equity / Unlisted corporate capital invested in a company. Companies funded by private equity are mostly young enterprises which have a relatively small capital base. Hence, private equity investments are characterised by high risks and – in case of positive corporate development – high yield. Private equity funds buy large numbers of shares or entire enterprises in order to change the structure of capital, management and organisation.

Speculation / Realisation of profits through changes in quotation of assets (stock, bonds, derivatives, currencies) which can be bought or sold.

Excess liquidity / If liquidity stops having any real economic function.

Pay-as-you-go system / Pension system according to which the current working part of the population funds the pensions of current pensioners.

Volatility / Expresses the extent to which the price of securities or currencies fluctuate within a specific time frame. Is determined by the quantity and speed of the assets moved.

Excess volatility / Volatility can be called excessive if fluctuations of asset prices cannot be explained by looking at the underlying fundamental data of a national economy.

Band of fluctuation / An exchange rate of two currencies which is allowed to fluctuate within a certain range. In the long run the current accounts of the participating countries are balanced within this range.