Students Scientific Conference

Journey to the World of Money

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Journey to the World of Money

Finance

1. What is Finance?

According to Investopedia, finance is the science that describes the management, creation and study of money, banking, credit, investments, assets and liabilities. Finance consists of financial systems, which include the public, private and government spheres, and the study of finance and financial instruments, which can relate to countless assets and liabilities. Some prefer to divide finance into three distinct categories: public finance, corporate finance and personal finance. All three of which would contain many sub-categories.

The parties involved in the financial activity are individuals making investments and loans, companies raising capital, the State and the local authorities ensuring the balance between expenses and revenues and financing their infrastructure or equipment projects.

2. Financial Development, the Development of the Form of Exchange

In ancient societies, exchange occurred only occasionally, because those societies did not target the production of goods. When surpluses were generated, this happened by chance. Exchange happened randomly. Barter transactions were limited and depended on the 'coincidence of wants'. This *simple exchange* form is called a *random replacement*.

Later, the exchange has become more technically advanced. In the exchange process certain products became more easily to swap for another product. This form of exchange is called the *advanced form of exchange*.

Subsequently, the *general form of exchange* evolved, and became significantly different from the first two exchange forms. At that time the value of goods was not only expressed by one but by several products not just a certain product, but most of the products have become the direct object of barter trade.

In most societies, the role of general equivalent has been fulfilled by different products, although gold has taken over this role very soon. Gold was suitable as a general equivalent by its relatively low utility value, its high material value, as well as its physical and chemical properties. It did not only function in a micro economic social circle, but as a general equivalent worldwide. The exchange form where gold is used as the general equivalent is an early form of *monetary exchange*.

Figure 1: Gold Coin

source: www.eremshop.hu

3. Function of Money (Gold Coin)

Money clearly identifies the value of goods, it acts as the general equivalent, expresses the value of all goods, and is always in a state of direct interchangeability.

- The function of money is as a *measure of value* in case of the gold (coin) can be defined by comparing the value of the goods against the value of gold (coin) so that gold both expresses the value of the goods and the value ratios between goods.
- Another function of money is as a *medium of exchange*. This refers to the use of money as medium of exchange between goods. In other words, money is the tool for trade transactions.
- As Money represents the absolute value, money is available for all goods, making it suitable to maintain the value, and build reserves. This function is called the *treasure generating* function.
- The function of *payment instruments* occurs when the movement of money and goods separates, when goods and money move individually or transactions occurs without goods movement. For instance in case of taking credit, providing loans, paying taxes.

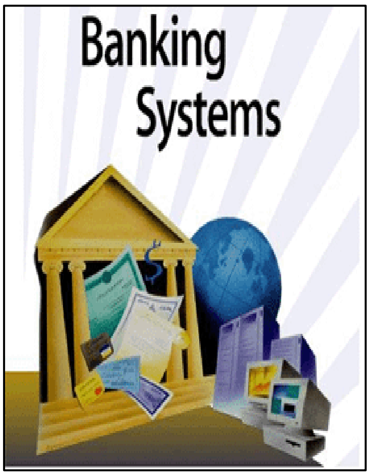
- Gold on the international market can function as general resources of purchase power, and in case of international crediting, as a general source of payment. If the assets in the form of gold will be rolled over from one country to another, gold would play an absolute material role in the economy. These features are summarized as *the world financial* function.

The end to the 'golden' years of the financial system dates back to the great global economic crisis between 1929-1933. The basic reason for the termination of gold coinage was due to the increased economic role of the state. The state budget is not compatible with the existence of the gold-based financial system. In our times, money, unlike gold, has no value of own, so it cannot be a general equivalent. However, it represents a generally accepted value, therefore it is a general medium of exchange. Except for the missing intrinsic value, money fulfils the same functions as gold.

Banking

Banks are credit institutions that provide financial services. The main activities of banks are to provide loans and accept deposits. Furthermore banks collect the economy's unused savings and ensure the re-placement or activation of financial resources in the area of the economy with financial needs. Banks are the engines of the modern (capitalist) economy. Banks traditionally gain profit from the fees of the financial services and the interest on loans.

Figure 2: Banking System



source: banking-system.wikispaces.com

The banking system is the sum of all the banks of the nation. The historical development has drawn up a one-tier and a two-tier banking system. The *one-tier banking system* is characterized by the fact that the central bank is directly related to the economic subjects in addition to the central bank functions: managing their payments, keeping their accounts and granting credit to them.

In the *two-tier banking system*, the central bank is not affiliated to the economic subjects directly, only through the second level of banks within the banking system; these are referred to as commercial banks, business banks, credit banks. These banks offer banking services to businesses. Commercial banks have been established with the appearance of demands for banking services. The commercial bank is the institution that accepts deposits, lends money and makes payments. The basic functions of commercial banks are to finance trade and production. In addition, commercial banks provide other financial services to their customers. Commercial banks also carry out many secondary functions, the so-called non-banking functions, such as:

- agency function (the bank acts as an agent for its customers)
- collection of cheques
- provider of locker facility
- preparing project reports on behalf of its clients
- providing market information to its customers, etc.

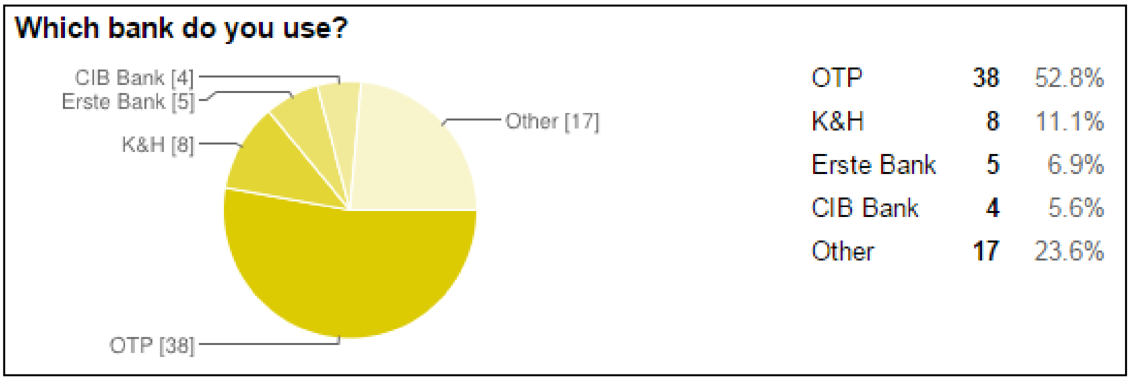
The central banks in each country appeared much later than business banks. In Hungary, the central bank was established only in 1839 under the name of Pest First National Savings Association. The first commercial bank was founded in 1841 as Pest Hungarian Commercial Bank, which was operating as a central bank during the 1848/49 Revolution. The intention of founding an independent National Bank emerged during the Austro-Hungarian Dualism of 1867. The National Bank was established in 1924. In Hungary, there had been a one-tier banking system operating since 1948 until 1987, when the two-tier banking system was introduced. Five banks received a general commercial banking license.

Figure 3: Pest Hungarian Commercial Bank

source: postcards.hungaricana.hu

Most Popular Banks in Hungary:

Figure 4: Distribution of banks



source: own survey

This pie chart shows the distribution of the questionnaire respondents.

* The full questionnaire is available on pages 10-11.

The most popular bank is the OTP Bank in Hungary. It is *more than 50 %* of the survey respondents (72 respondents) who chose this bank.

The predecessor of OTP Bank, called the National Savings Bank (OTP Bank) was established in 1949 as a nation-wide, state-owned, banking entity providing retail deposits and loans. In the ensuing years, its activities and the scope of its authority gradually widened. OTP Bank has completed several successful acquisitions in the past years, becoming a key player in the region. Besides Hungary, OTP Group currently operates in 8 countries: Bulgaria, Croatia, Romania, Serbia, Slovakia, Ukraine, Montenegro and Russia. The OTP Group provides high quality financial solutions to meet the needs of nearly 11,9 million customers through almost 1500 branches, agent networks and state-of-the-art electronic channels.

The second most popular is the Endrőd and Environs Savings Cooperative. *About 20%* of the respondents chose this.

The Endrőd and Vidéke Mutual Savings Bank was founded in 1957. During the past 55 years it has been growing steadily. This continuous development has enabled the setting up of the nowadays Endrőd and Vidéke Savings Bank, which is among the nation's largest Savings Banks. The central operational area of the largest mutual savings bank is in the Southern Great Plain region of Békés county. Currently, there are ten branches. The bank strives to continuous renewal, more complete customer service, fast and flexible administration, and wants to fulfill the financial needs of the population of the region and fully meeting the financial needs of local institutions.

Last but not least, the third most popular bank is K&H. Out of respondents *slightly more than 10%* chose this bank.

With a birthday corresponding to the time when the two-tier banking system was established in Hungary, K&H Bank started its operation on 1st January 1987. K&H Bank was established by the Hungarian state and certain “inherited” companies (active in agriculture, food industry, commerce and tourism). During the period ending in 1992, K&H Bank expanded its activities and clientele, launching new services and dynamically increasing the number of branches. Kredietbank, the legal predecessor of KBC Bank (Belgium), entered the market in Hungary as the winner of K&H Bank’s privatization tender in 1997. The KBC Group increased its ownership from the initial 23% to 100%. In 2002, K&H Bank started to distribute microchip-based cards as the first financial institution in Hungary. These are far more secure than cards with magnetic strips and the data they store can also be regularly modified and used for identification purposes.

Investments

More dominant forms of financial life were established in England or the United States, but the first investment funds emerged in the Netherlands. In the 17th century William I. set up the first investment company. The aim was to provide an easy way for small investors to reduce their individual risk.

A mutual fund is a kind of investment that uses money from many investors to invest in stocks, bonds or other types of investment. A fund manager (or "portfolio manager") decides how to invest the money, and for this he is paid a fee, which comes from the money in the fund. Mutual funds are usually "open ended", meaning that new investors can join into the fund at any time. When this happens, new units, which are like shares, are given to the new investors. There are thousands of different kinds of mutual funds, specialize in investing in different countries, different types of businesses, and different investment styles. There are even funds that only invest in other funds.

The Risk of Investments

Risk for most people is the occurrence of an event, which they don't want and cannot predict. In Hungary, nowadays people choose short term investments (government securities and bank deposits), because there is usually a fixed yield and lower risk. Safety is the most important thing for people. Currently, nearly 2,490 billion HUF are placed in retail government securities. Bonus government bonds are the safest savings option, paying an interest rate of 4% over the average inflation rate during the past year. In the past, the most common investments were in real estate properties, but now the value of this type of investments has halved.

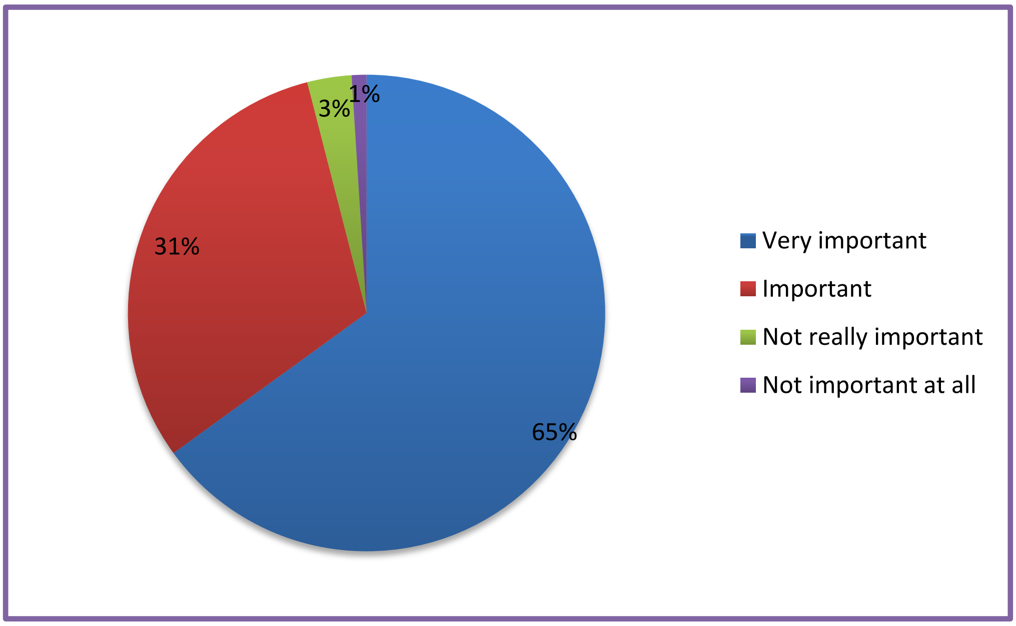
However, the number of financial institutions operating in the region varies from country to country. The micro finance sub-sector is the fastest growing and mobilizes substantial savings for investment. The average penetration rate is still low as most of the rural areas are still unbanked. The banking sub sector is still offering traditional banking products including deposits, overdrafts, short-term credit, export finance and foreign currency exchange. The banks have tended to avoid the risks associated with long-term debt financing which has led to low productivity in sectors which require long-term financing.

Figure 4: Types of Investments

source: bigdrumassociates.com

Some Other Findings Based on the Questionnaire Survey

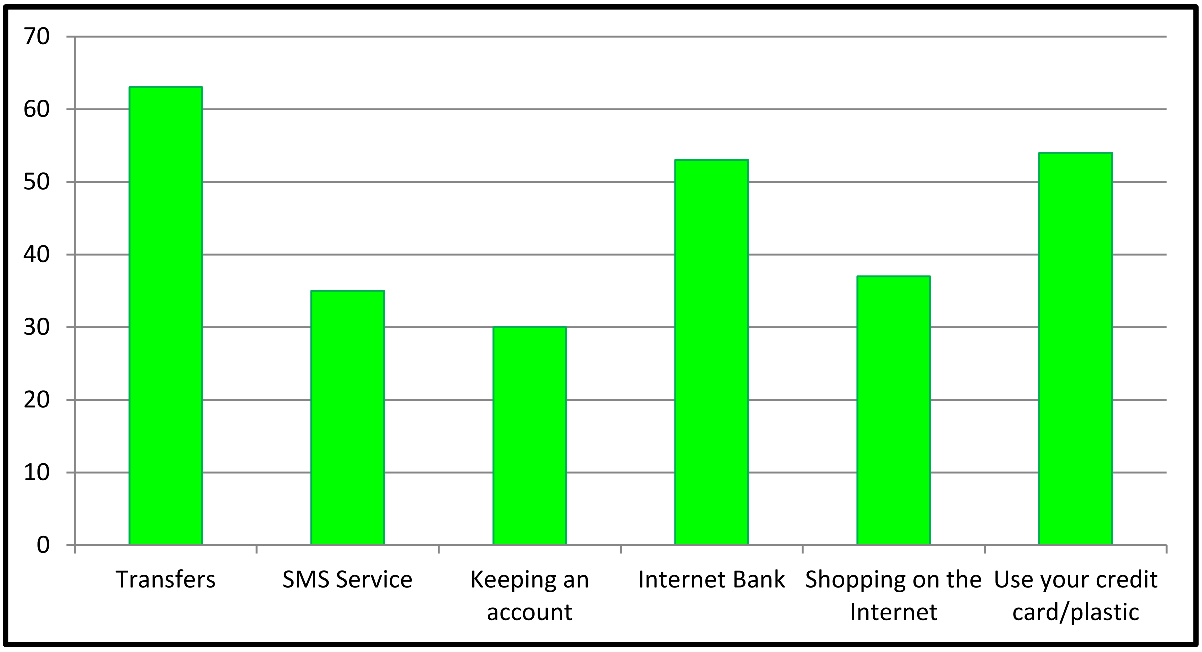
Figure 5: Importance of price of services



source: own survey

According to respondents, the most important factor was the price of services, as this pie chart shows it. The second is the possibility of Internet banking, and the third is the number of ATMs.

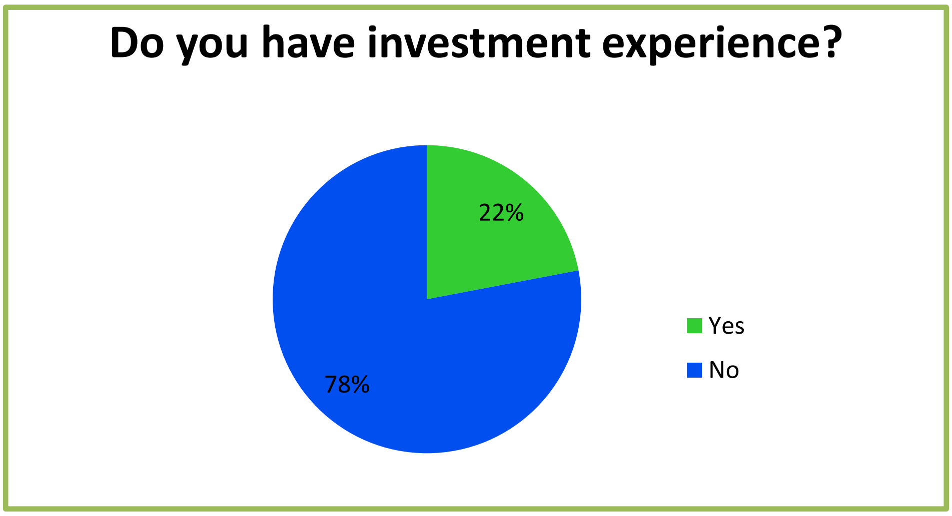
Figure 6: Frequency of banking services



source: own survey

This bar chart shows the frequency of using banking services. People like doing transfers, shopping online and using their credit card for shopping.

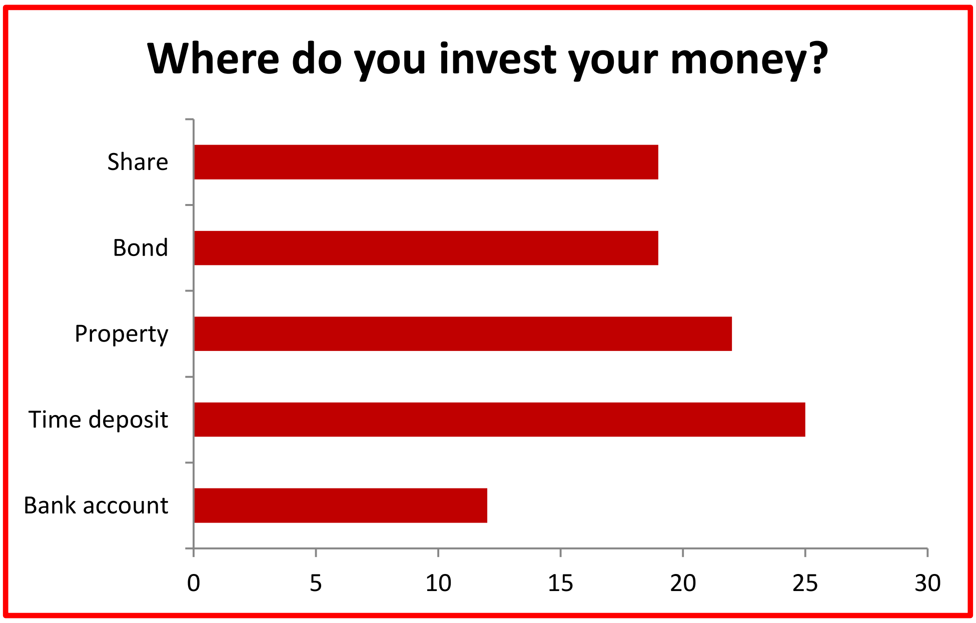
Figure 7: Investment experience



source: own survey

According to this chart, more than 70% of people haven‘t made any investment yet. The main reason is that they don‘t know enough about investments, and they are afraid of losses.

Figure 8: Opporunities of Investments



source: own survey

Despite the fact that many people haven‘t invested in anything yet, the majority of respondents would like to keep their money in time deposits. Others would like to keep their money in property, or shares.

Conclusion

The banks are the engine of the financial system. Without them, the global economy can not develop. But they can also pose a risk to the system, as shown during the last financial crisis of 2008-2009.

Modern banks fulfill functions on a local basis. Through local branches,family savings are collected and credit for personal investment provided. The savings are activated again in the national and international economy by national and international banks. Businesses rely on banks for their day-to-day financial transactions and business investment. Global banks fulfill the financial needs of multinational companies.

The international banking system enables worldwide business transactions. The local banks provide safe saving possibilities.

The world of money

My name is Alexandra Vitáris. I am a first-year student at SZIU Faculty of Economics, Agriculture and Health Studies in Bekescsaba.I study finance and accounting. In my questionnaire I would like to collect more information about people's banking and investment habits. I would like to ask you to help me with filling out this questionnaire. Thank you for your help!

Your gender:

- Female
- Male

Your highest level of education:

- Primary school
- Secondary school
- Currently studying in higher education
- Graduate
- Other:

Your age:

- Under 18 years
- 18-25
- 25-35
- 35-45
- 45-55
- Over 55 years

Which bank do you use?

- OTP
- K&H
- Erste Bank
- CIB Bank
- Other:

How important are the following factors for you:

	Very important	Important	Not really important	Not important at all
Bank's reputation				
Number of bank branches				
Number of ATMs				
The possibility of Internet Banking				
Others opinion				
Price of services				

What banking services do you usually use?

- [ ] Transfers
- [ ] Bank account limit
- [ ] SMS Service
- [ ] Keeping an account
- [ ] Internet bank
- [ ] Pay your bills with your bank account
- [ ] Shopping on the Internet
- [ ] Use your credit card/plastic
- [ ] Personal loan
- [ ] Other: ____________

Do you have investment experience?

- ○ Yes
- ○ No

Frequency of your investment?

- ○ I have not invested yet.
- ○ Few times in a year.
- ○ Monthly.
- ○ Several times in a month.
- ○ Other: ____________

Where do you invest your money?

- [ ] Bank account
- [ ] Time deposit
- [ ] Property
- [ ] Bond
- [ ] Share
- [ ] Investment funds
- [ ] Other: ____________

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Wikipedia

Wikipedia

OTP Bank official website

Endrőd and Environs Savings Cooperative official website

K&H official website

Wikipedia