TEXT 10

Is Finance an Art or a Science?

The short answer to this question is "both." Finance, as a field of study and an area of business, definitely has strong roots in related-scientific areas such as statistics and mathematics. Furthermore, many modern financial theories resemble scientific or mathematical formulas. However, there is no denying the fact that the financial industry also includes non-scientific elements that liken it to an art. For example, it has been discovered that human emotions (and decisions made because of them) play a large role in many aspects of the financial world.

History is ripe with examples that seem to contradict the notion that Finance behaves according to rational scientific laws. For example, the great 1929 stock market crash beginning on Black Thursday (Oct. 24, 1929) are not suitably explained by scientific theories. The human element of fear also played a part (the reason a dramatic fall in the stock market is often called a "panic").

In addition, the track records of investors as a whole have shown that markets are not entirely efficient and, Therefore, not entirely scientific. Studies have shown that investor sentiment appears to be mildly influenced by weather, with the overall market generally becoming more bullish when the weather is predominately sunny. Other phenomena include the January effect, the pattern of stock prices falling near the end of one calendar year and rising at the beginning of the next.

TEXT 11

Financial Intermediary

A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment banks, mutual funds and pension funds. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economies of scale involved in commercial banking, investment banking and asset management. Although in certain areas, such as investing, advances in technology threaten to eliminate the financial intermediary, disintermediation is much less of a threat in other areas of Finance, including banking and insurance.

A non-bank financial intermediary does not accept deposits from the general public. the intermediary may provide factoring, leasing, insurance plans or other financial services. Many intermediaries take part in securities exchanges and utilize long-term plans for managing and growing their funds. the overall economic stability of a country may be shown through the activities of financial intermediaries and growth of the financial services industry.

TEXT 12

Financial Statements

Financial statement analysis allows analysts to identify trends by comparing ratios across multiple time periods and statement types. these statements allow analysts to measure liquidity, profitability, company -wide efficiency and cash flow. There are three main types of financial statements: the balance sheet, income statement and cash flow statement. the balance sheet is a snapshot in time of the company's assets, liabilities and shareholders' equity. Analysts use the balance sheet to analyze trends in assets and debts. the income statement begins with sales and ends with net income. it also provides analysts with gross profit, operating profit and net profit. Each of these is divided by sales to determine gross profit margin, operating profit margin and net profit margin. The cash flow statement provides an overview of the company's cash flows from operating activities, investing activities and financing activities.

Each financial statement provides multiple years of data. Used together analysts can track performance measures across financial statements using several different methods for financial statement analysis, including vertical and horizontal analysis. An example of vertical analysis is when each line item on the financial statement is listed as a percentage of another. Horizontal analysis compares line items in each financial statement against previous time periods. In ratio analysis, line items from one financial statement are compared with line items from another.

TEXT 13

Finance Charge

A Finance charge is a fee charged for the use of credit or the extension of existing credit. it may be a flat fee or a percentage of borrowings, with percentage-based Finance charges being the most common. A Finance charge is often an aggregated cost, including the cost of carrying the debt itself along with any related transaction fees, account maintenance fees or late fees charged by the lender.

Finance charges are a form of compensation to the lender for providing the funds, or extending credit, to a borrower. these charges can include one-time fees, such as an origination fee on a loan, or interest payments, which can amortize on a monthly or daily basis. Finance charges can vary from product to product, or lender to lender.

One of the more common Finance charges is the interest rate. this allows the lender to make a profit, expressed as a percentage, based on the current amount that has been provided to the borrower. Interest rates can vary depending on the type of financing acquired and the borrower's creditworthiness. Secured financing, which is most often backed by an asset such as a home or vehicle, often carries lower interest rates than unsecured financing, such as a credit card. This is most often due to the lower risk associated with a loan back by an asset.