



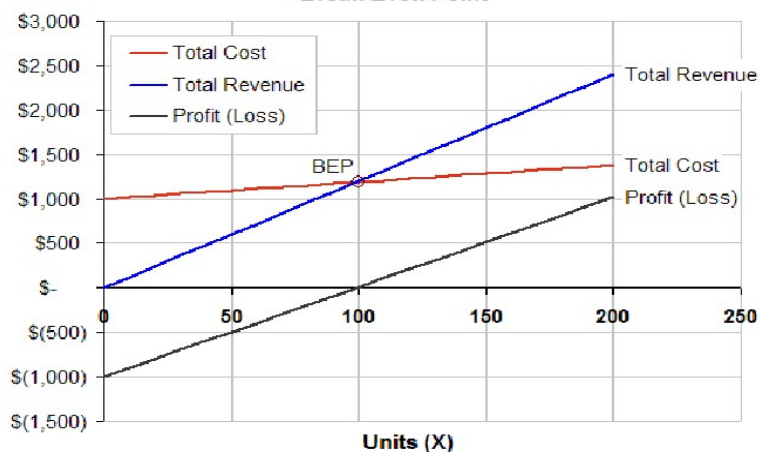
MERGERS AND ACQUISITIONS



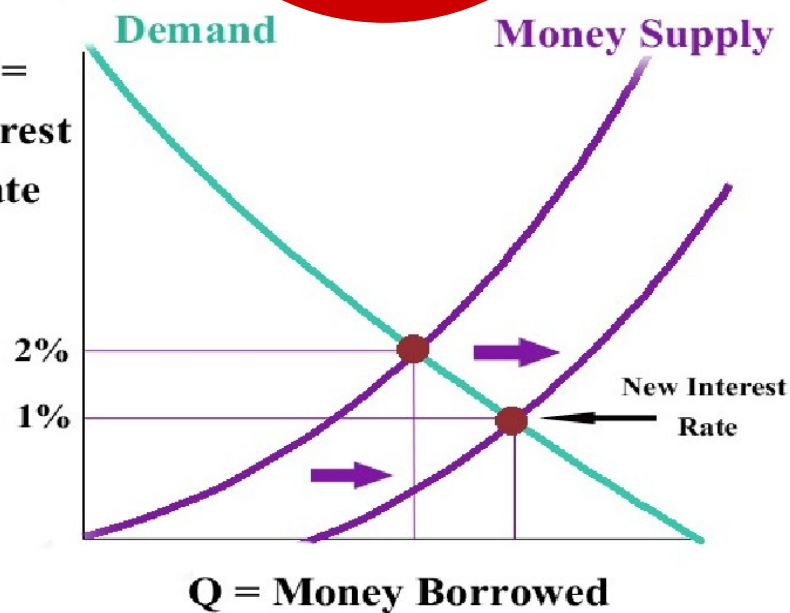
Lecture

15

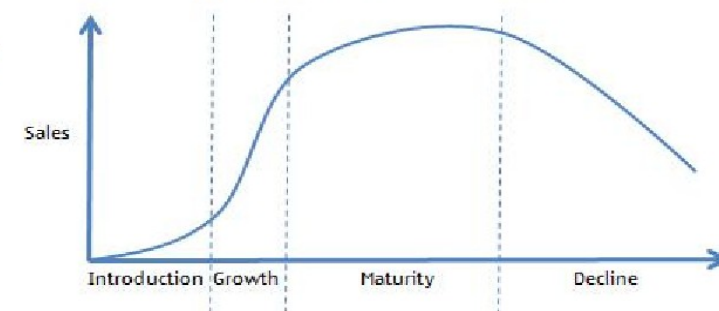
Break-Even Point



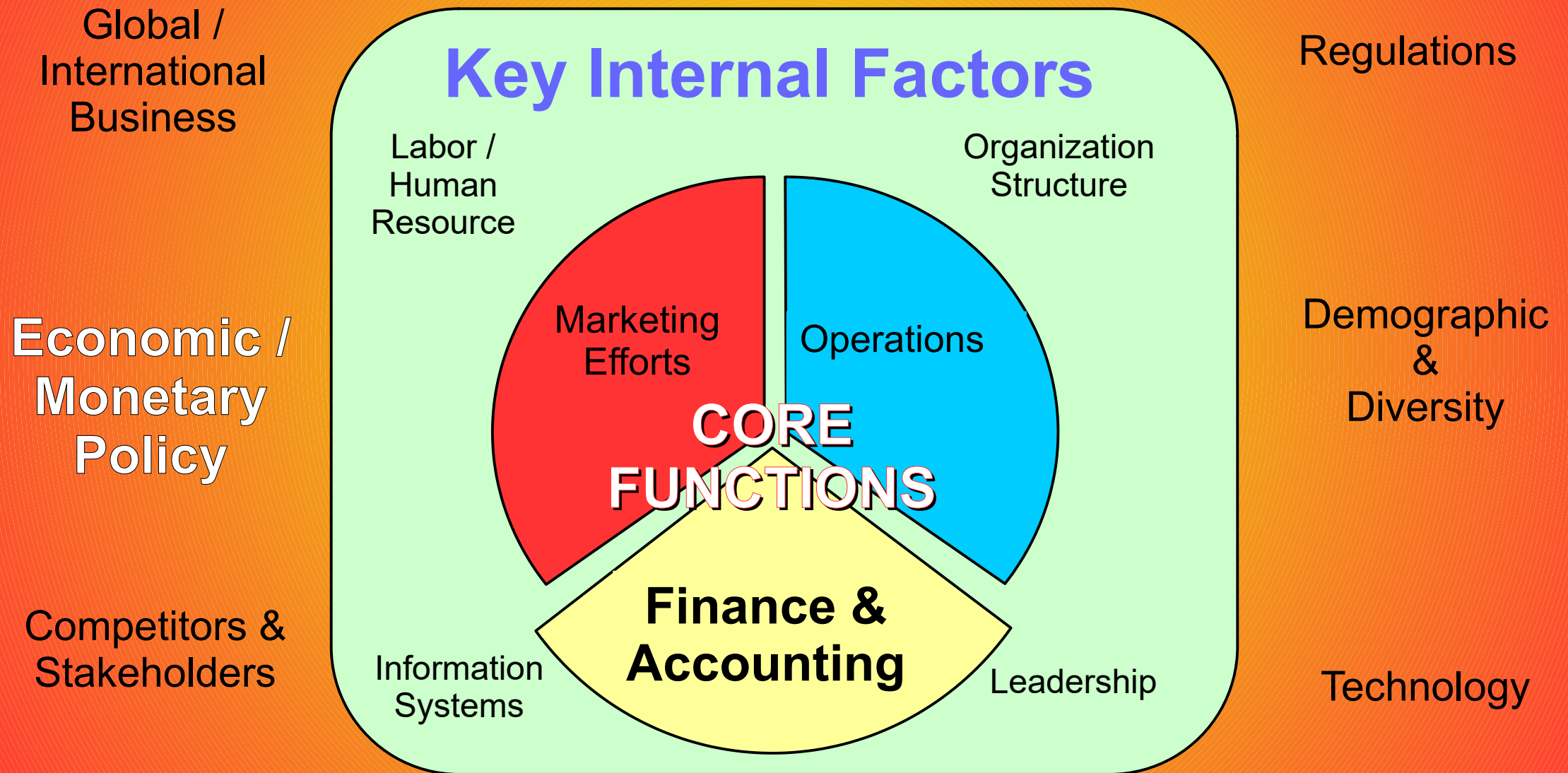
P =
Interest
Rate



Product Lifecycle Stages



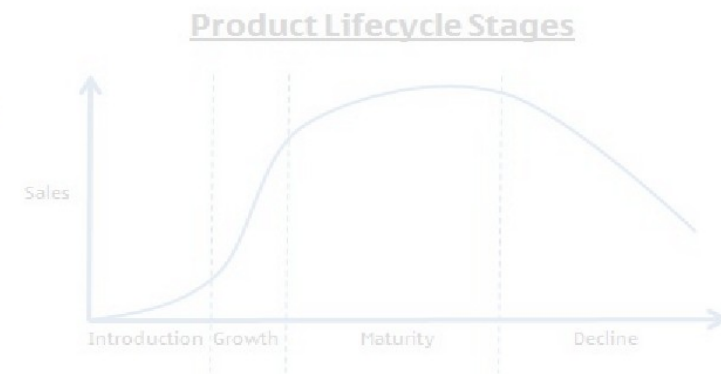
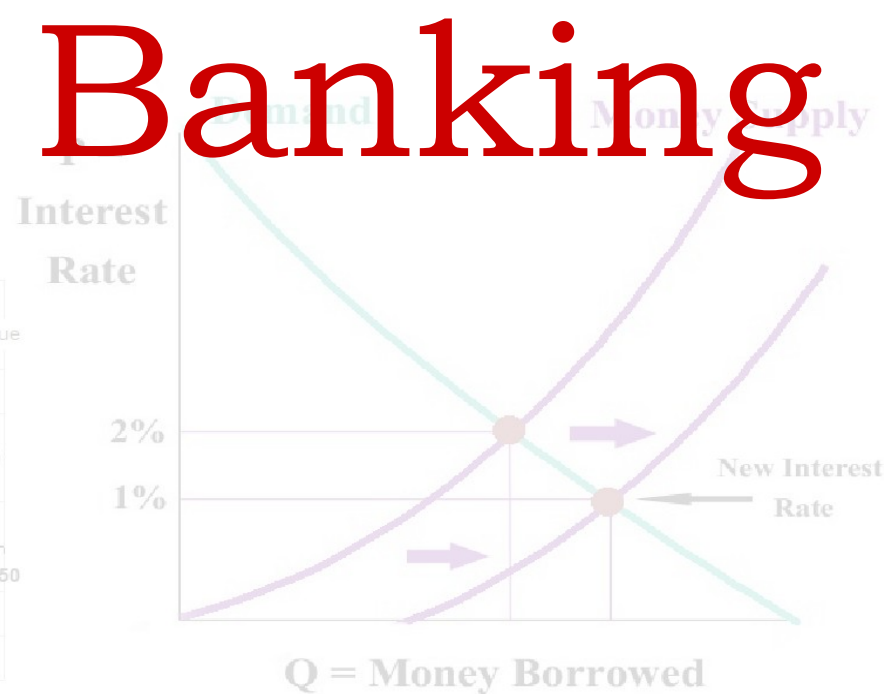
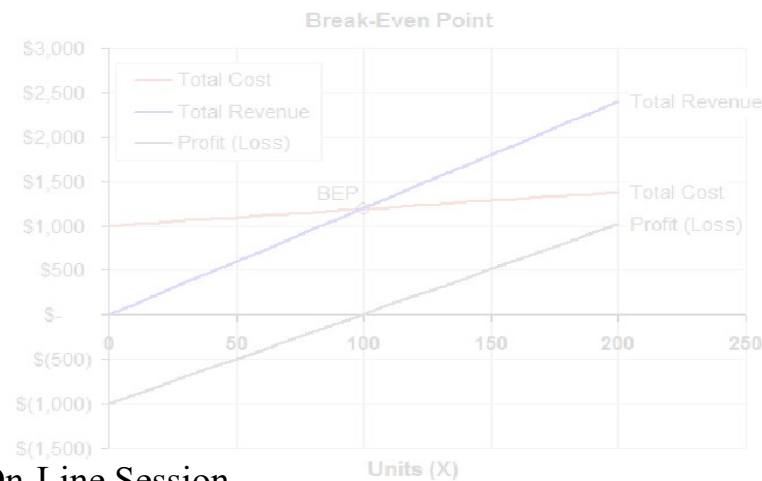
External / Social Forces



Introduction to Business

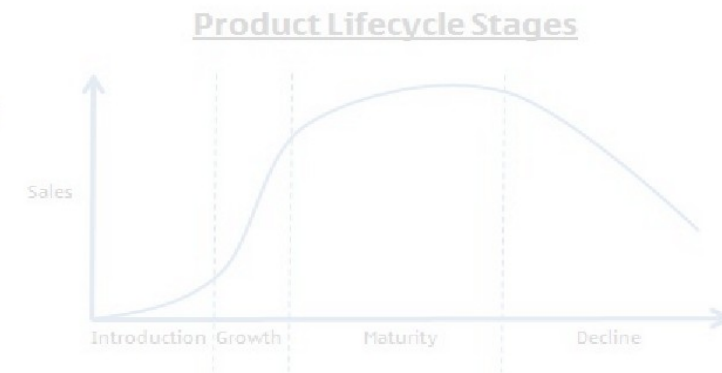
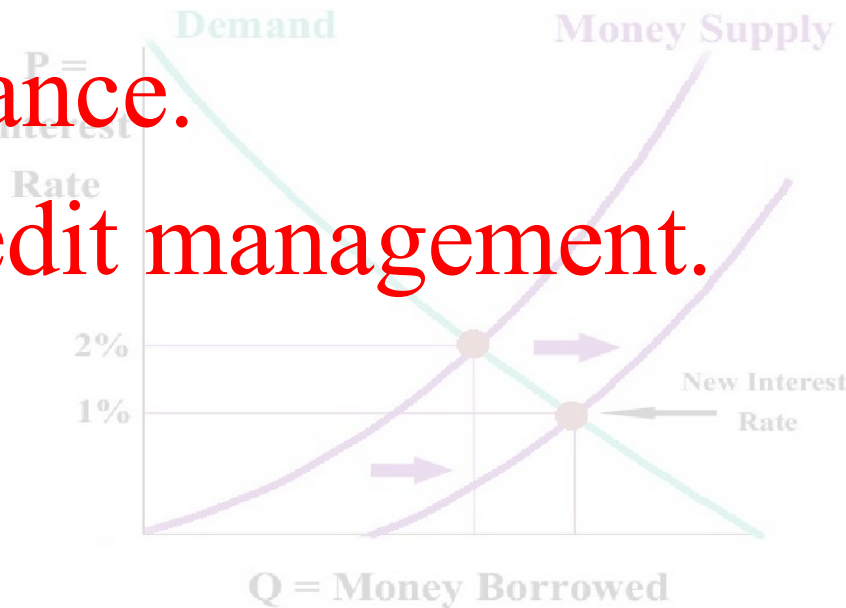
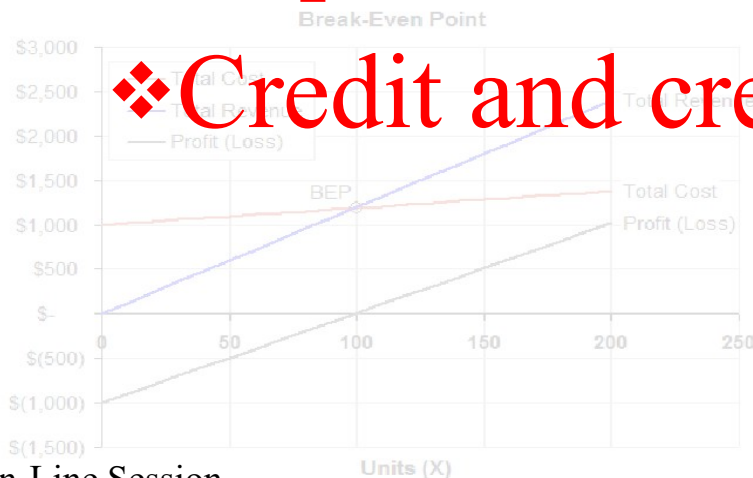
Money and

Banking



Learning objectives

- ❖ What is money?
- ❖ The Federal Reserve System.
- ❖ The organizations in the banking industry.
- ❖ Financial institutions.
- ❖ Deposit insurance.
- ❖ Credit and credit management.

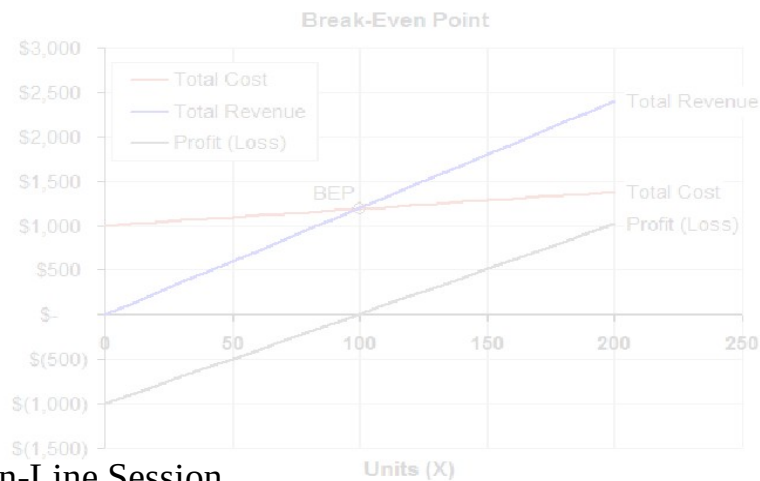


What is money?

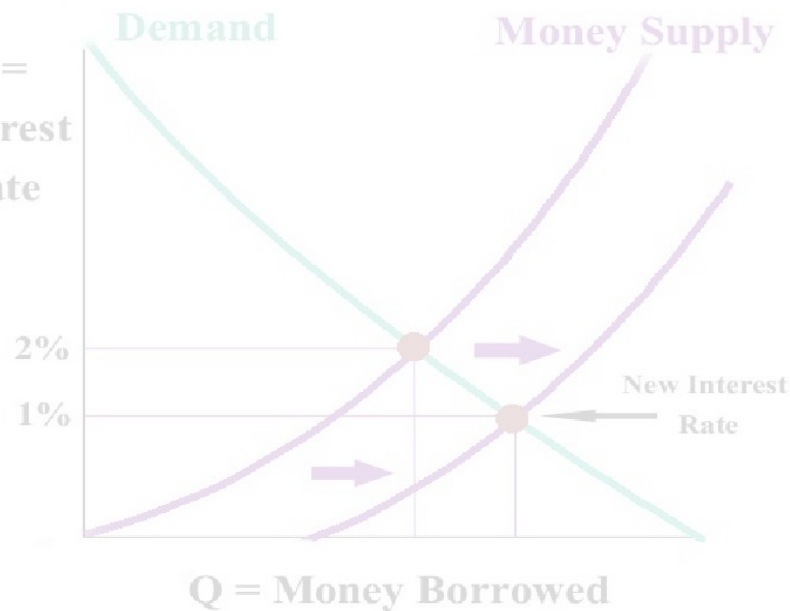
◆ Functions of money

◆ Some characteristics of money

◆ Money supply



$P =$
Interest
Rate



Product Lifecycle Stages



Functions of money

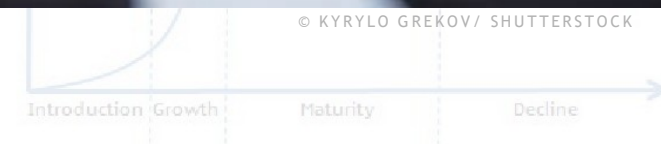
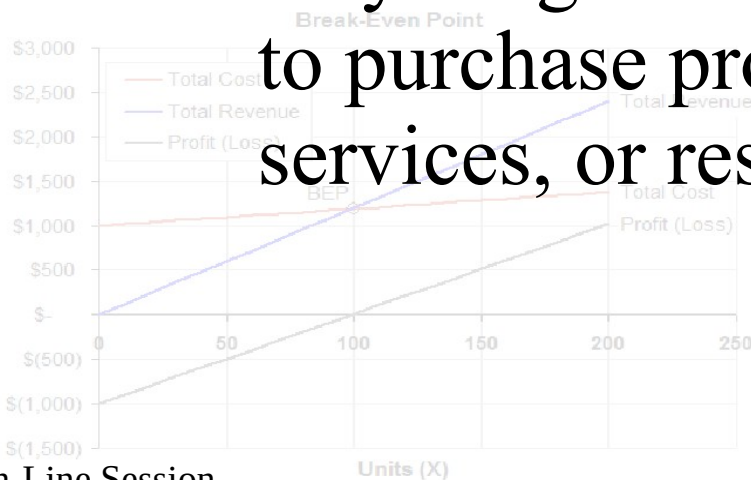
➤ Barter system

Goods or services are traded directly for other goods or services

➤ Money

Anything a society uses to purchase products, services, or resources

MERGERS AND ACQUISITIONS

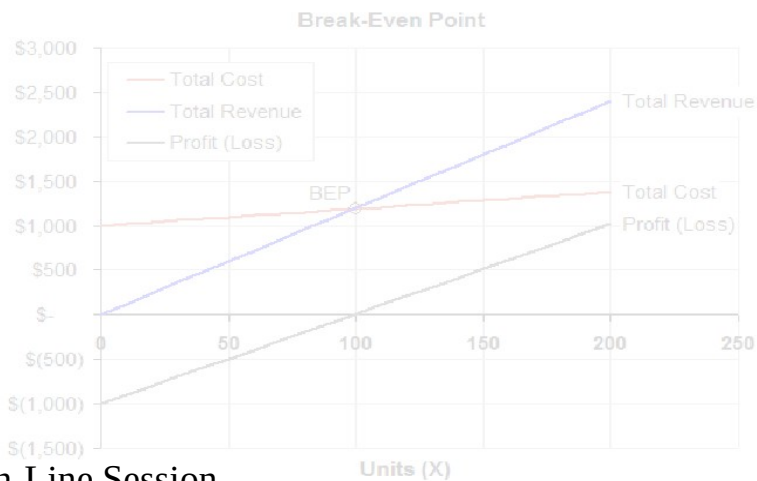


Functions of money

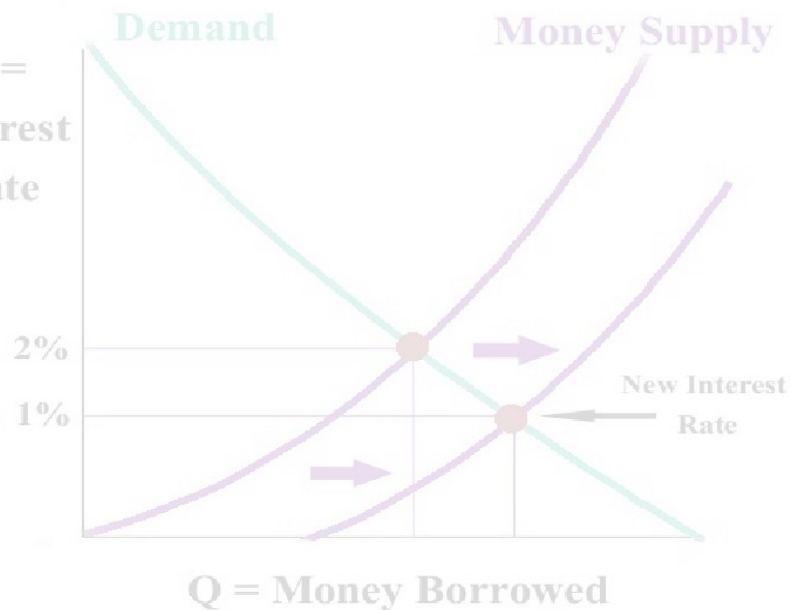
➤ Medium of exchange

➤ Measure of value

➤ Store of value

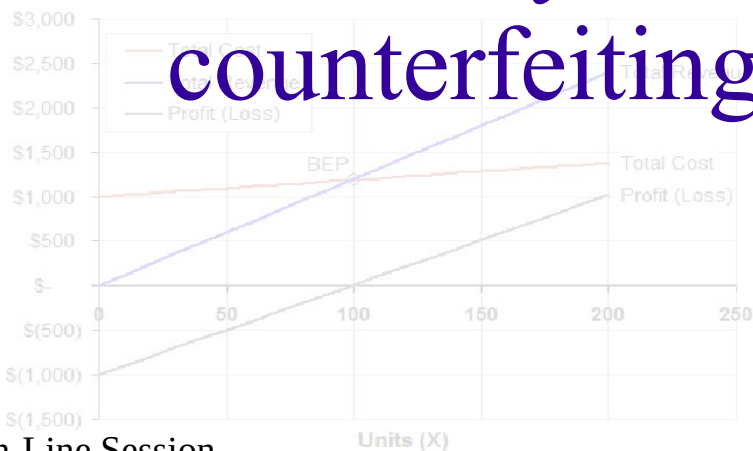


$P =$
Interest
Rate

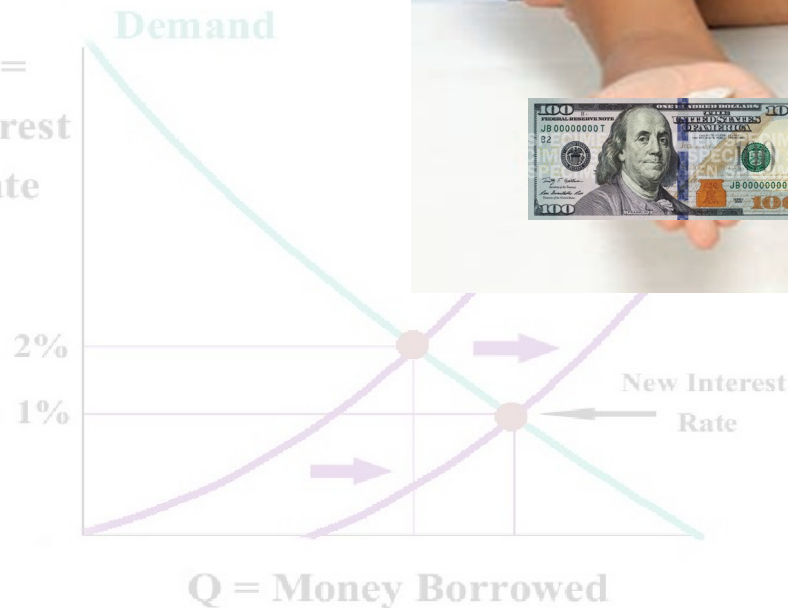


Characteristics of money

- Divisibility
- Portability
- Stability
- Durability
- Difficulty of counterfeiting



P =
Interest
Rate



MERGERS AND ACQUISITIONS



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le Stages



New type of money

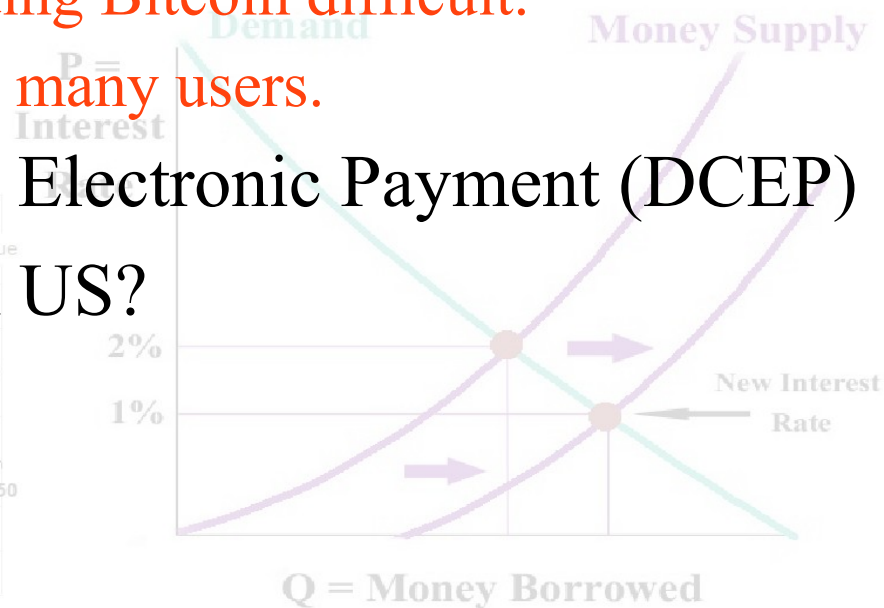
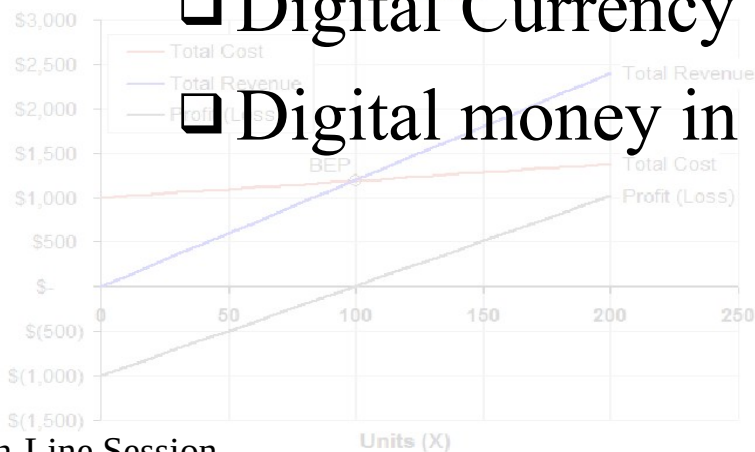
Digital Currency

□ Bitcoin!

- A digital currency created in 2008.
- There is no central regulating authority.
- Transactions are between only two people without middlemen.
- This makes valuing Bitcoin difficult.
- It is attractive to many users.

□ Digital Currency Electronic Payment (DCEP)

□ Digital money in US?



Product Lifecycle Stages



Money supply

M_1
and
 M_2

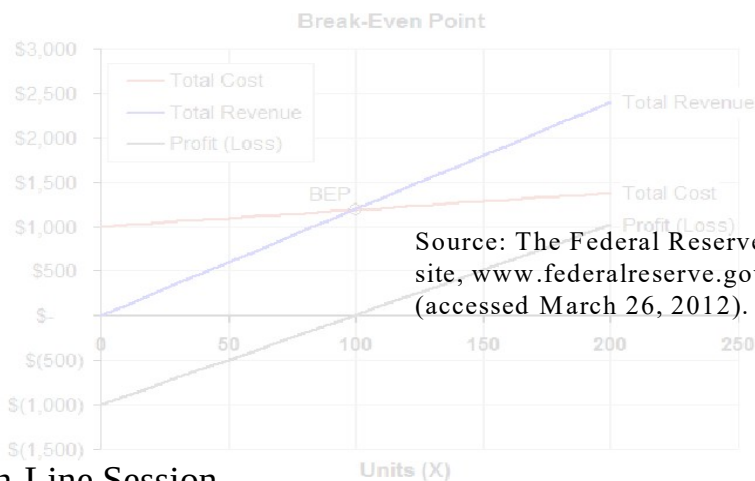
MERGERS AND ACQUISITIONS

Certain securities
and small-
denomination
time deposits
(\$7,566.9 billion)

Currency and
demand deposits
(\$2,220.5 billion)

$M_1 =$
\$2,220.5
billion

$M_2 =$
\$9,787.4
billion



P =
Interest
Rate

Q = Money Borrowed

The Federal Reserve System

◆ What is Federal Reserve System (Fed)

◆ Economic crisis

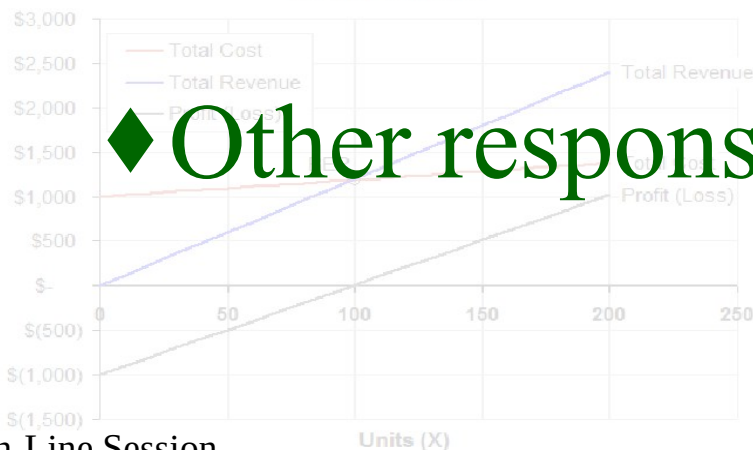
◆ Tools of Federal Reserve

◆ Other responsibilities

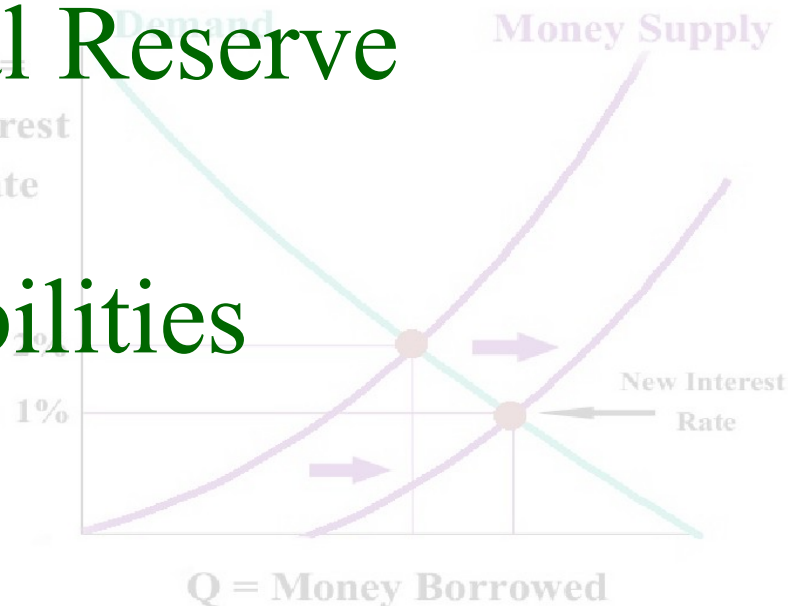
MERGERS AND ACQUISITIONS



Break-Even Point



Interest Rate

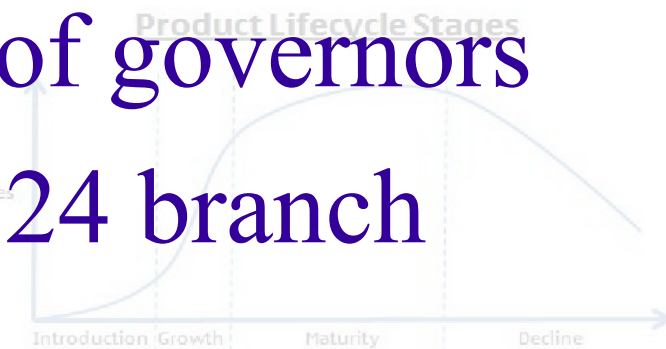
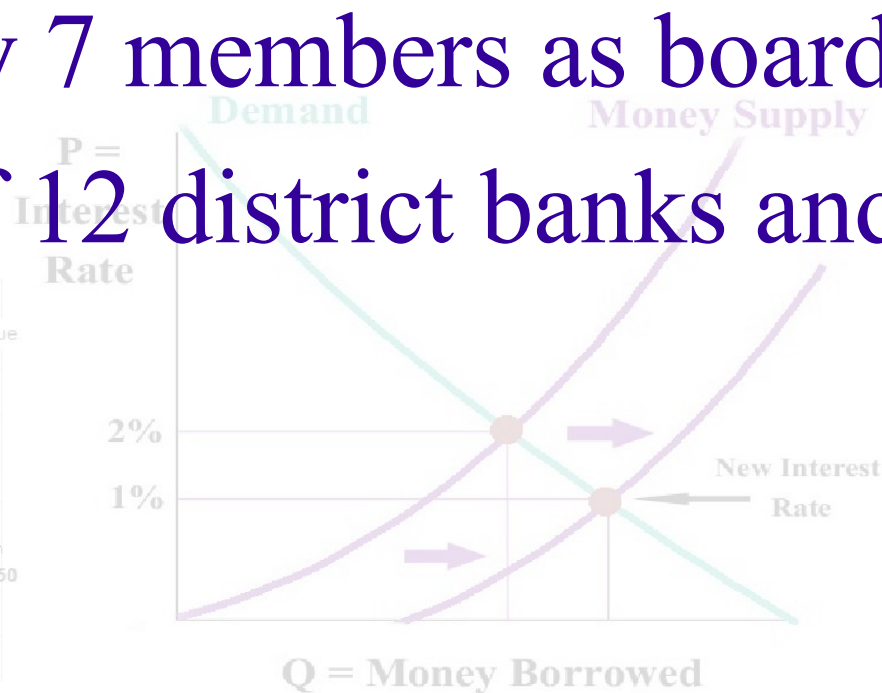
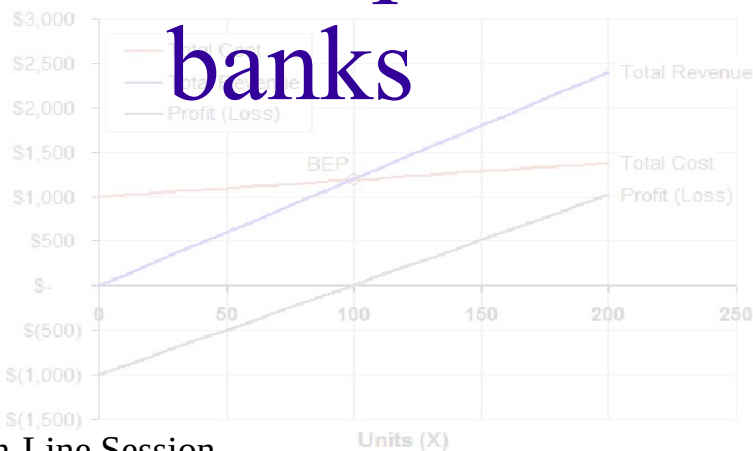


Product Lifecycle Stages

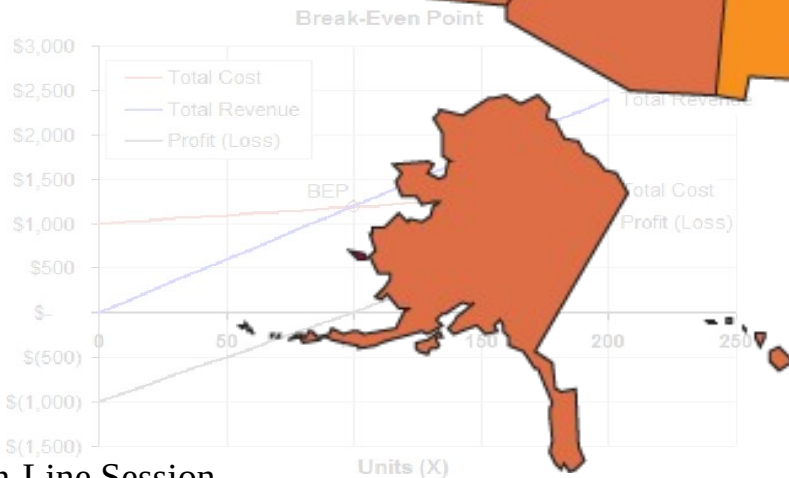
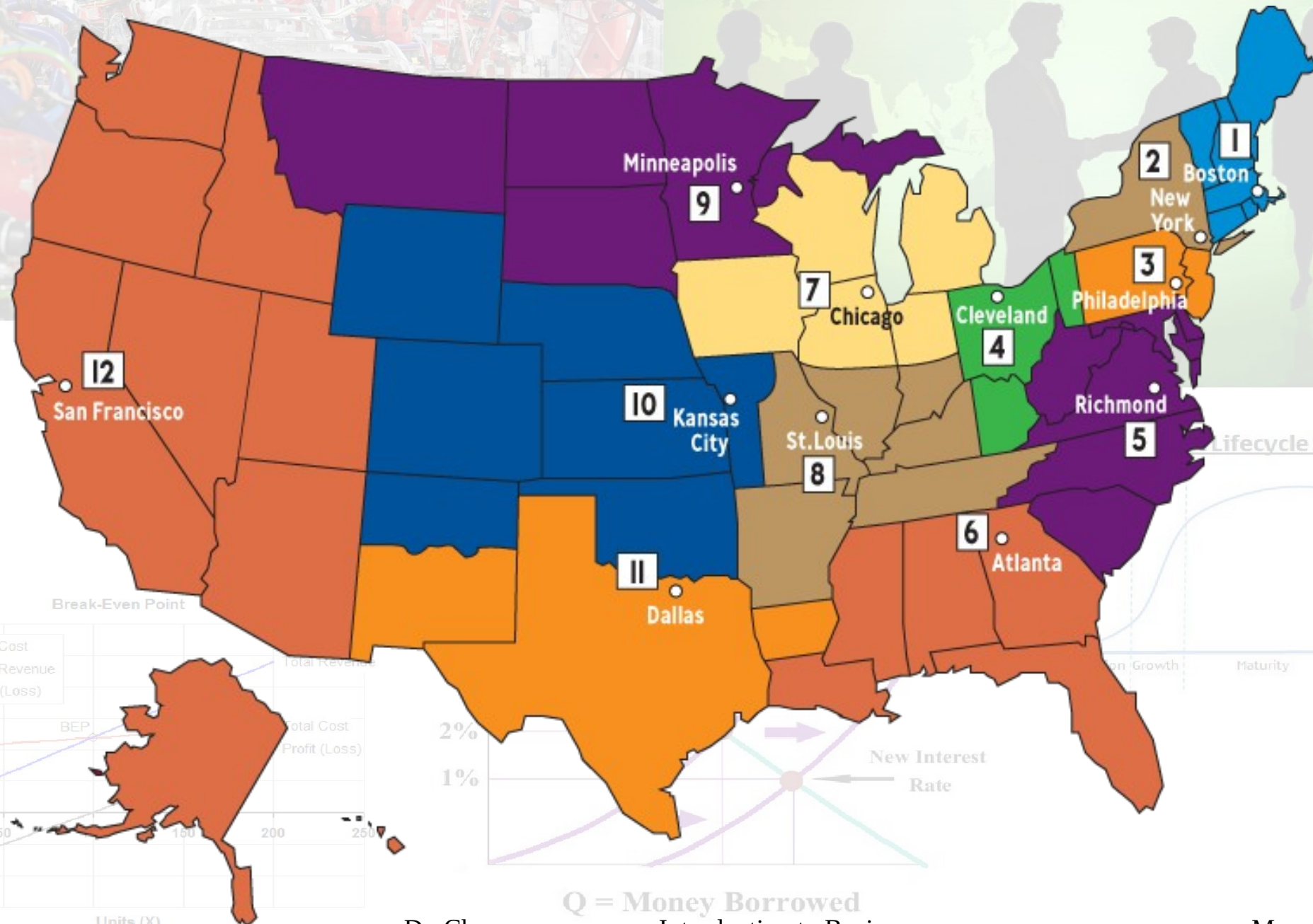


What is the Fed.?

- The central bank of the U.S.
- Responsible for regulating banking industry
- Created by Congress in 1913
- Controlled by 7 members as board of governors
- Composed of 12 district banks and 24 branch banks



12 Federal Reserve District Banks



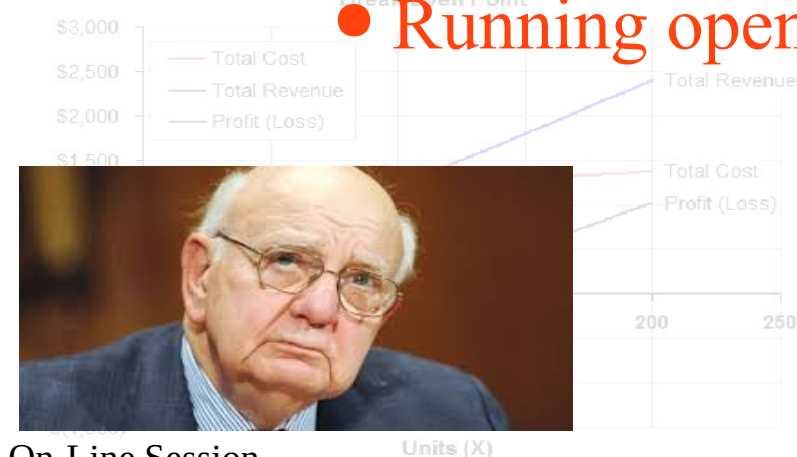


Economic crisis



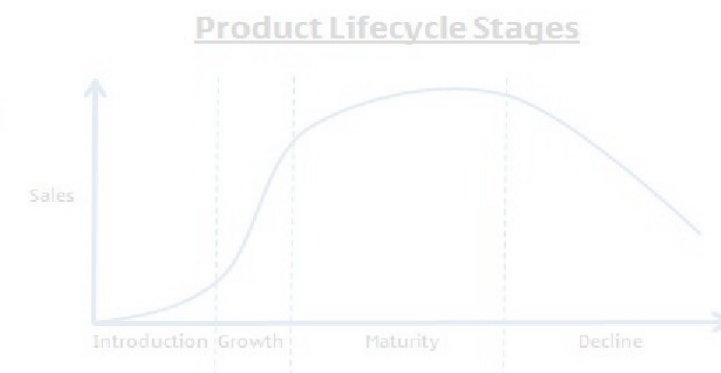
➤ Monetary policy

- ❑ Fed's decisions that determine the size of supply of money and the level of interest rates
- ❑ Methods to implement monetary policy
 - Controlling reserve requirements
 - Regulating the discount rate
 - Running open-market operations



Dr. Chu

Introduction to Business



Money & Banking – 14

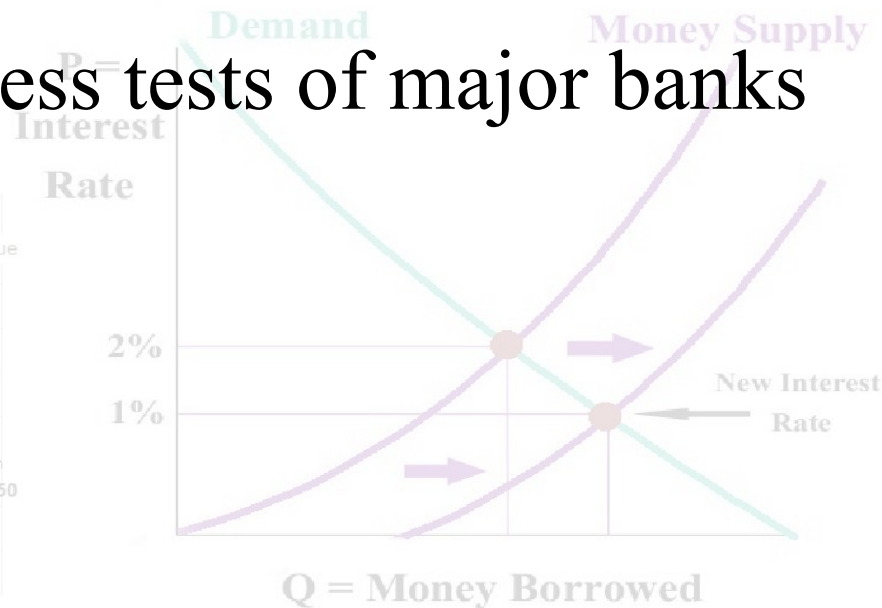
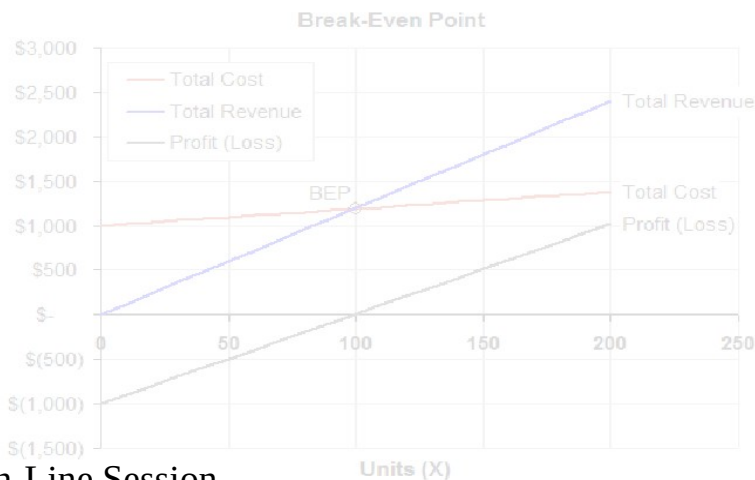
Economic crisis

Provided liquidity

- ❑ Supported troubled financial markets
- ❑ Supported important financial institution

Commercial paper: Short-term promissory note issued by a large corporation

- ❑ Conducted stress tests of major banks



Tools of Fed

➤ Reserve requirement

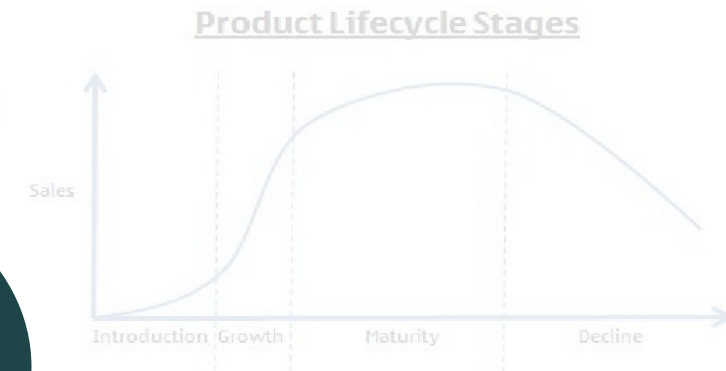
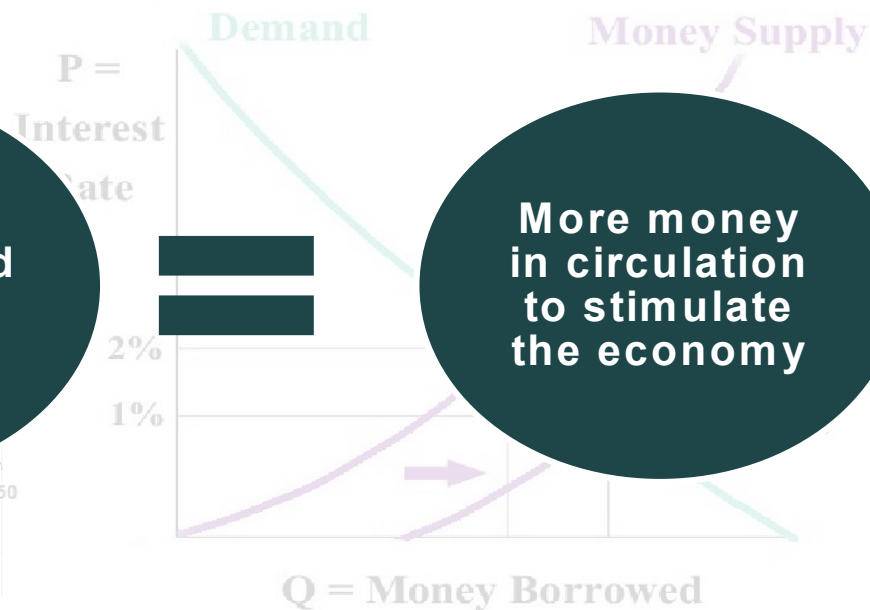
More
required
reserves

=

Less
money in
circulation

Less required
reserves

More money
in circulation
to stimulate
the economy



Tools of Fed

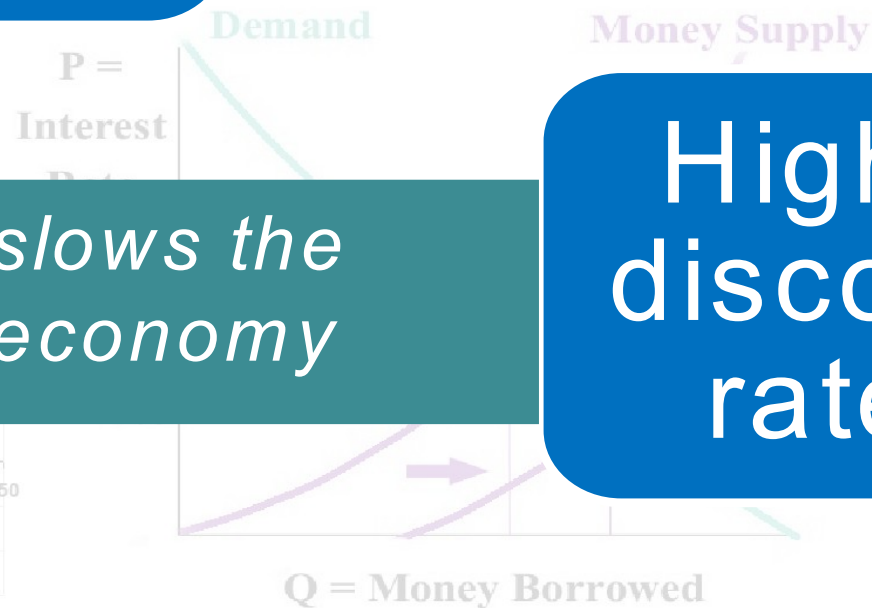
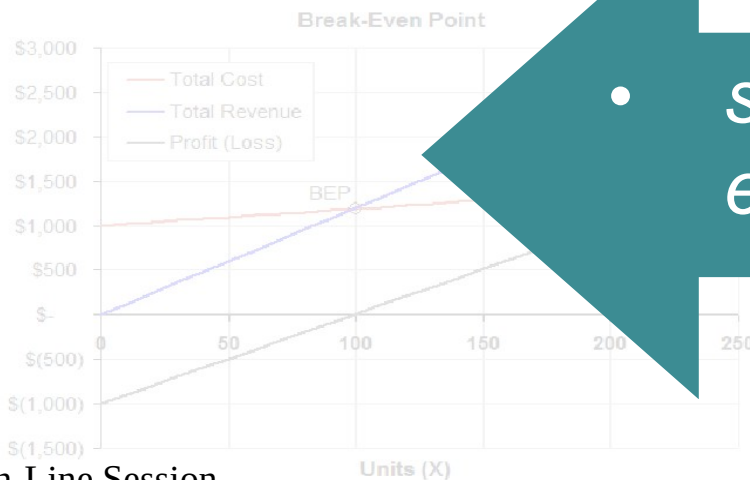
➤ Discount rate

Lower discount rates

- banks to lend more and stimulate the economy

Higher discount rates

- slows the economy



Product Lifecycle Stages



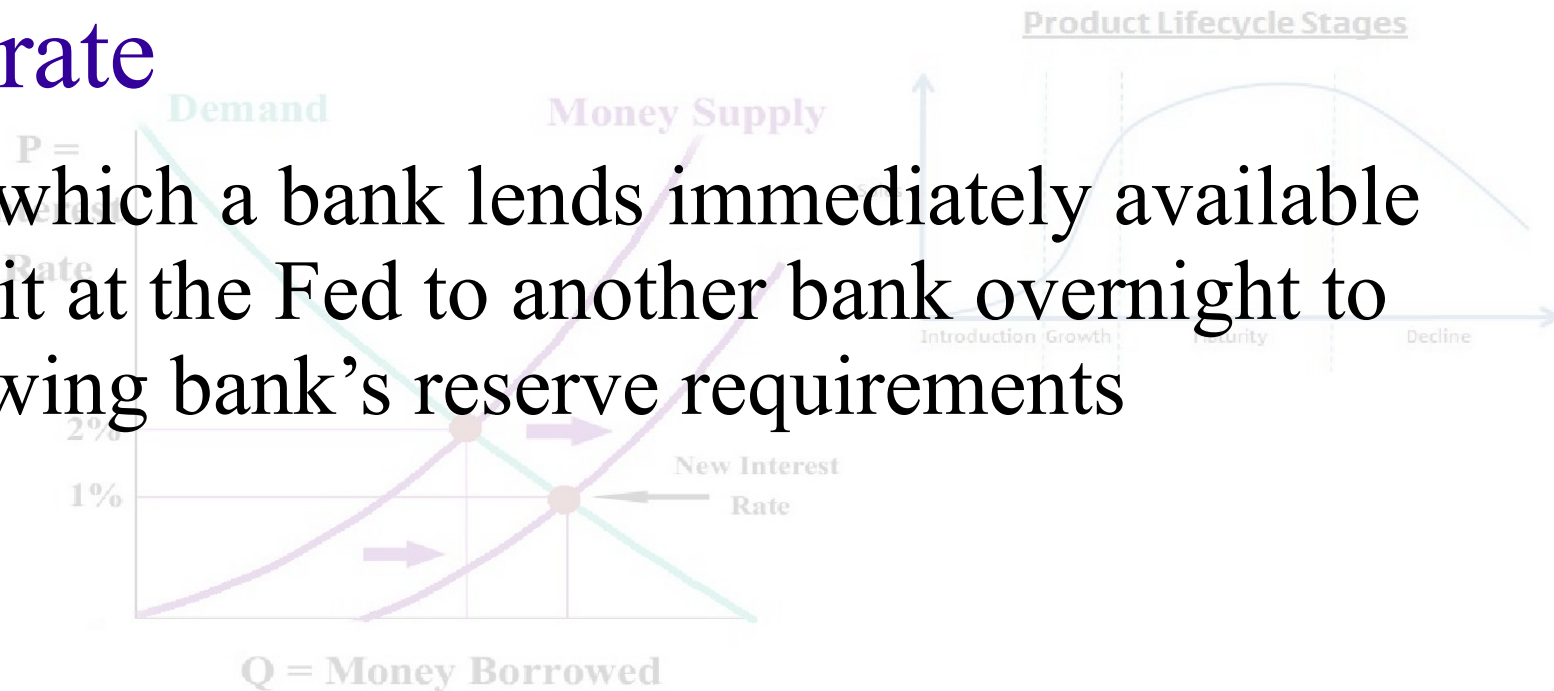
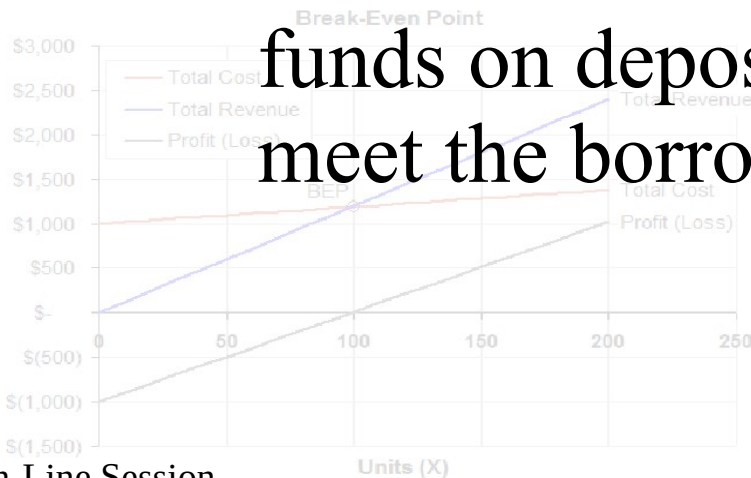
Tools of Fed

➤ Open market operations

Buying and selling of U.S. government securities by the Federal Reserve System for controlling the supply of money

➤ Federal funds rate

Interest rate at which a bank lends immediately available funds on deposit at the Fed to another bank overnight to meet the borrowing bank's reserve requirements



Summary of tools

Reserve requirement

Control method	Immediate result	Long-term effect
Increase reserve	Banks put more money into the Fed, reducing money supply; thus, there is less money available to lend to customers.	Economy slows
Decrease reserve	Banks put less money into the Fed, increase the money supply; thus, there is more money available to lend to customers.	Economy speeds up

Open-market operations

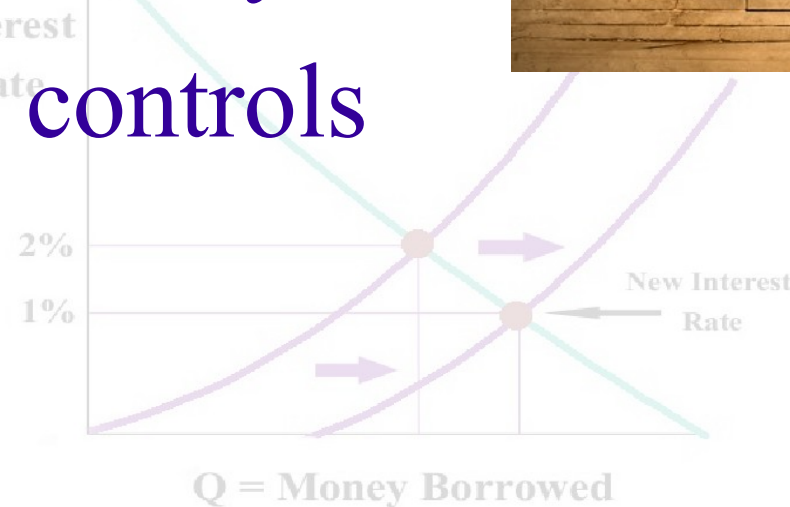
Control method	Immediate result	Long-term effect
Fed sells bonds	Money flows from the economy to the Fed.	Economy slows
Fed buys bonds	Money flows into the economy from the Fed.	Economy speeds up

Discount rate

Control method	Immediate result	Long-term effect
Rate increase	Banks borrow less from the Fed, thus, there is less money to lend.	Economy slows
Rate decrease	Banks borrow more from the Fed, thus, there is more money to lend.	Economy speeds up

Other responsibilities

- Serving as government bank
- Clearing checks and electronic transfers
- Inspection of currency
- Selective credit controls



Banking industry

◆ New regulations

◆ Services offered by banking companies

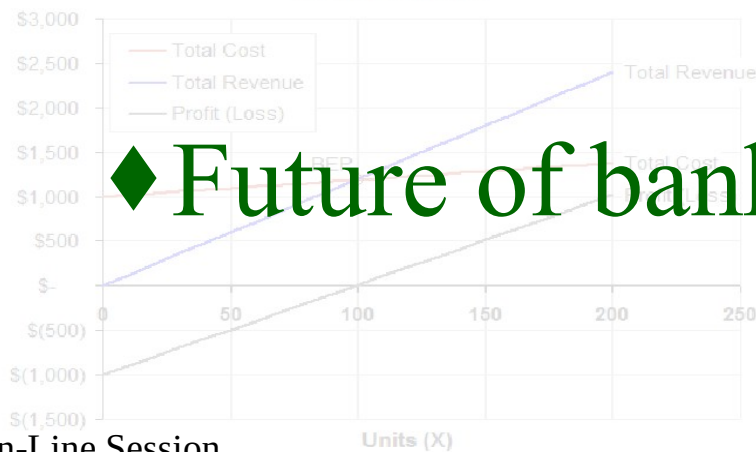
◆ Commercial banks.

◆ Future of banking industry

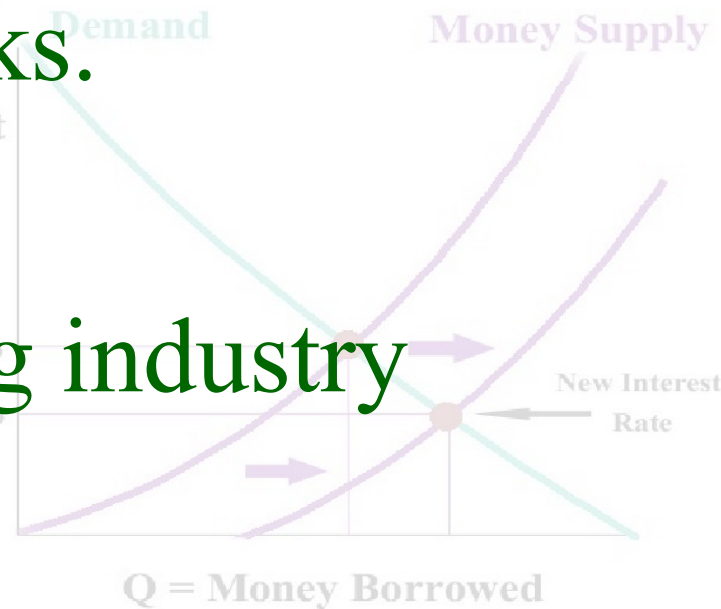
MERGERS AND ACQUISITIONS



Break-Even Point



Interest Rate



Product Lifecycle Stages



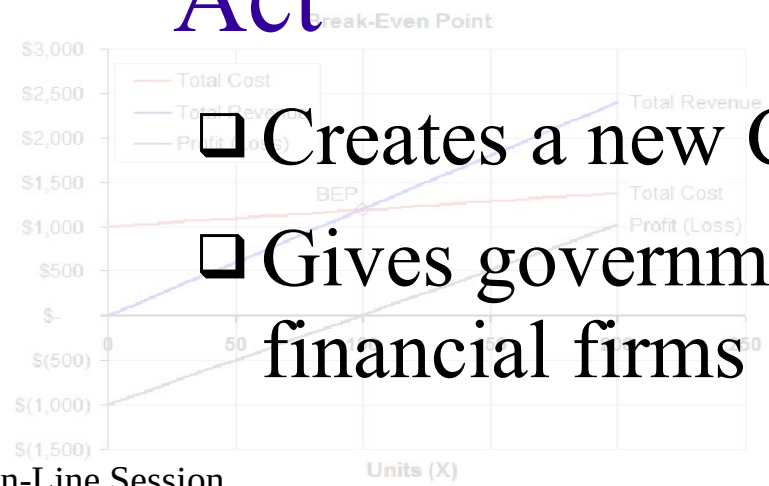
New regulation

- Protect from unfair financial and banking practices
- Close gaps that allow large banks and financial firms to avoid federal oversight
- Dodd-Frank Wall Street Reform and Consumer Act
 - ❑ Creates a new Consumer Finance Protection Bureau
 - ❑ Gives government power to seize and close down failing financial firms

MERGERS AND ACQUISITIONS



Product Lifecycle Stages



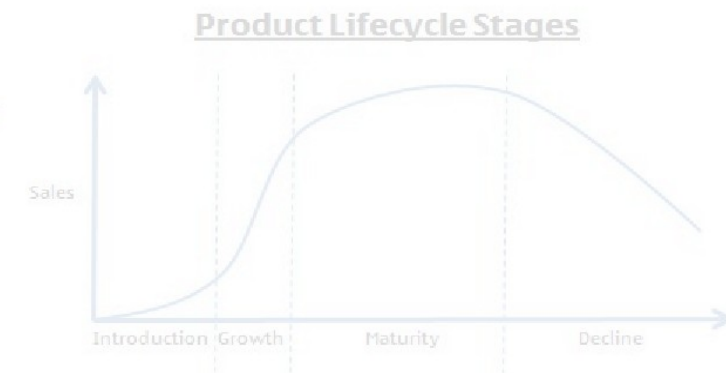
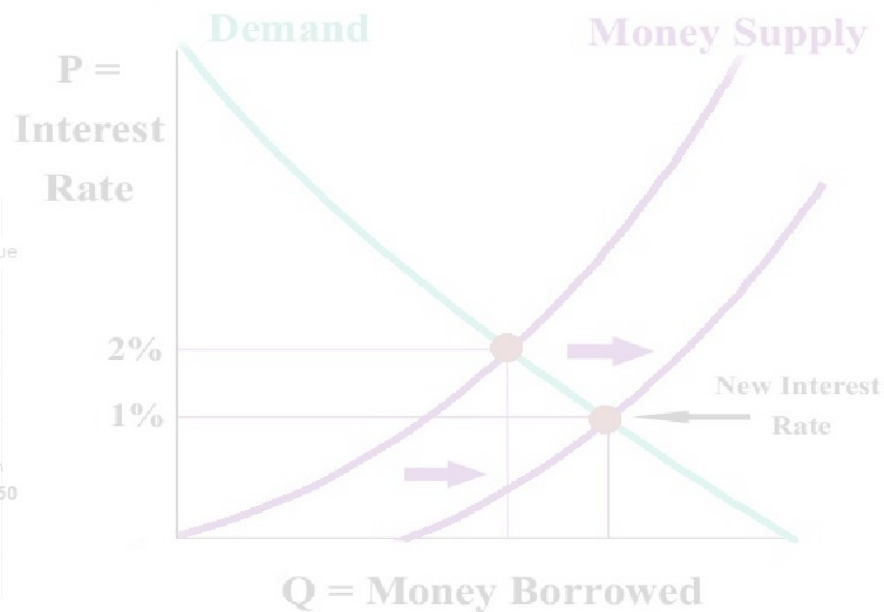
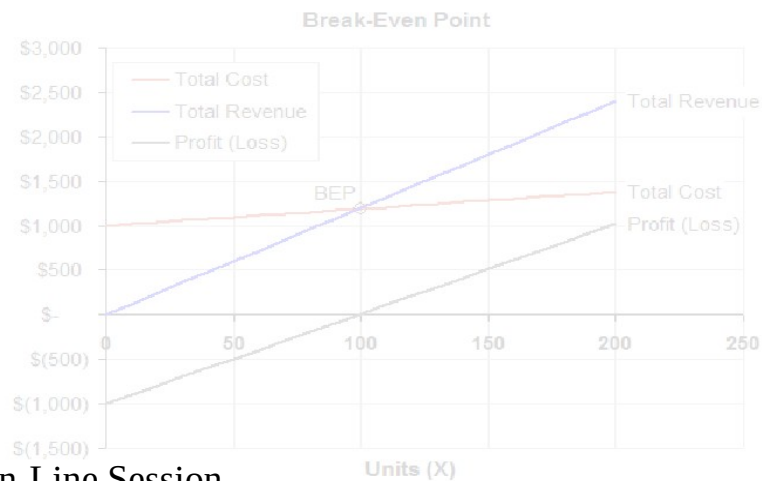
Interest Rate



Services offered by banking co.

- Traditional
- Automated services

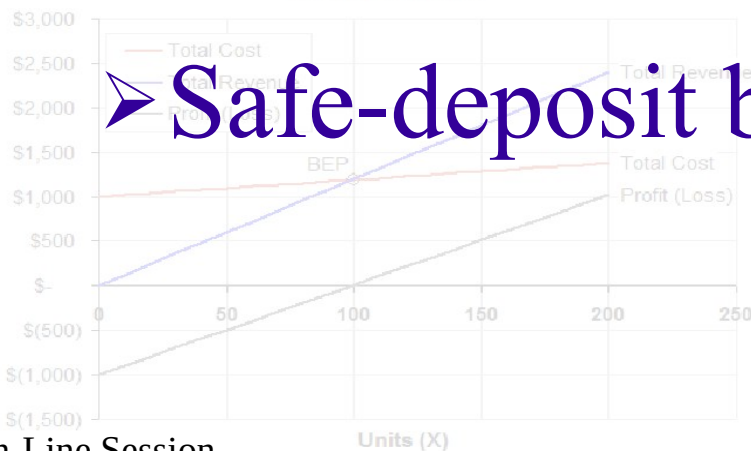
- International



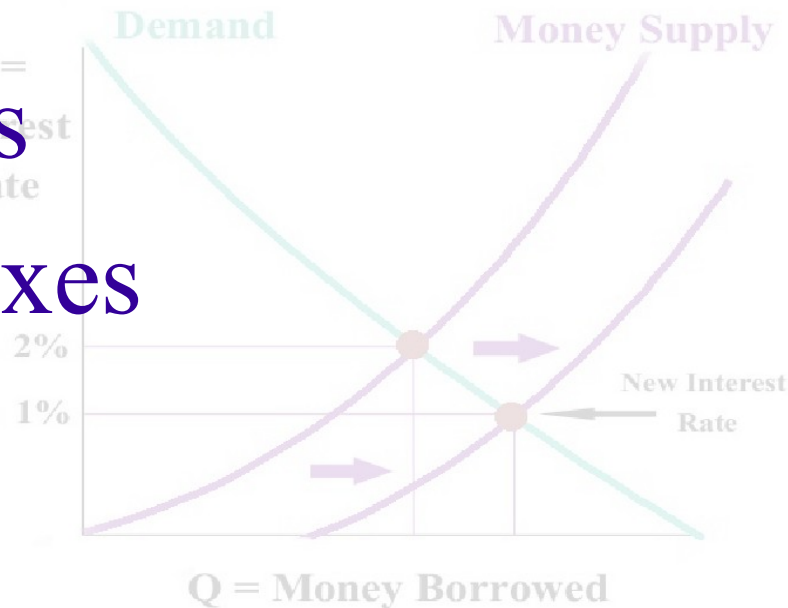
Traditional services

- Checking
- Savings
- Certificate of Deposit (CD)
- Loans
- Certified checks
- Safe-deposit boxes

MERGERS AND ACQUISITIONS



P =
Interest
Rate

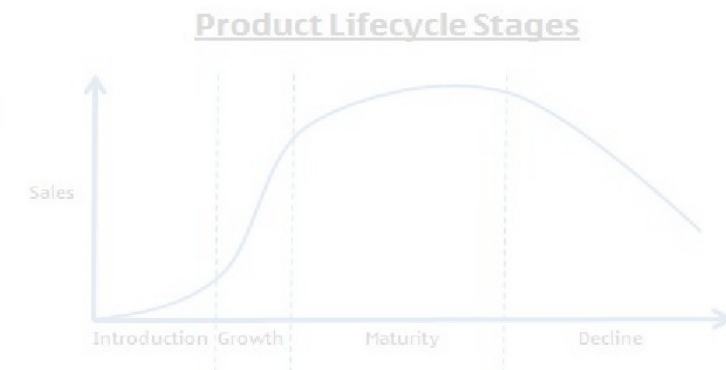
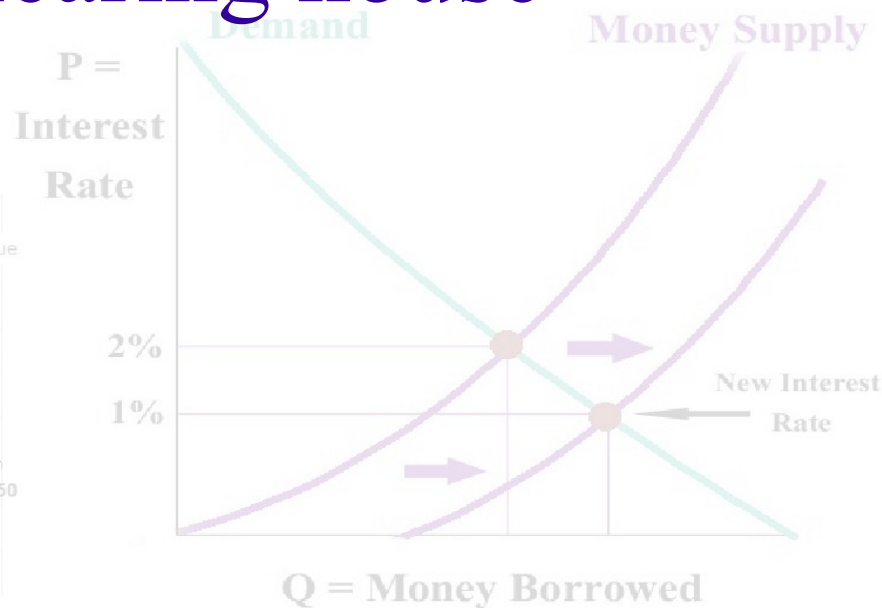
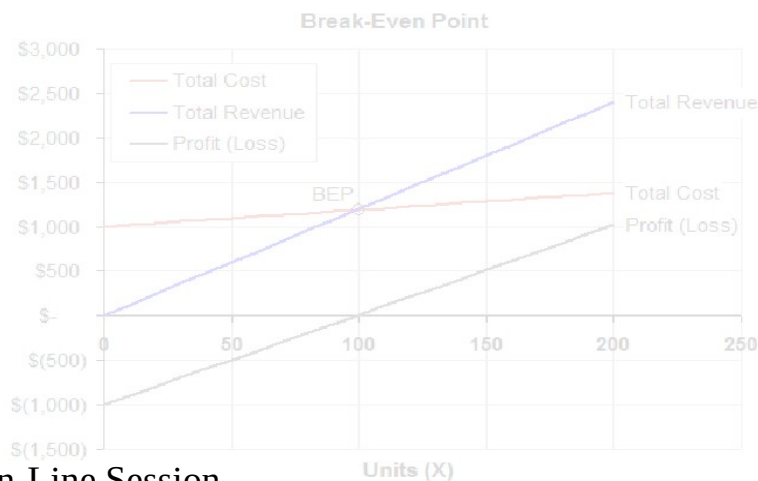


Product Lifecycle Stages



Automated services

- Automatic Teller Machines (ATM)
- Electronic transfer of funds
- Electronic check conversion
- Automated clearing house



International markets

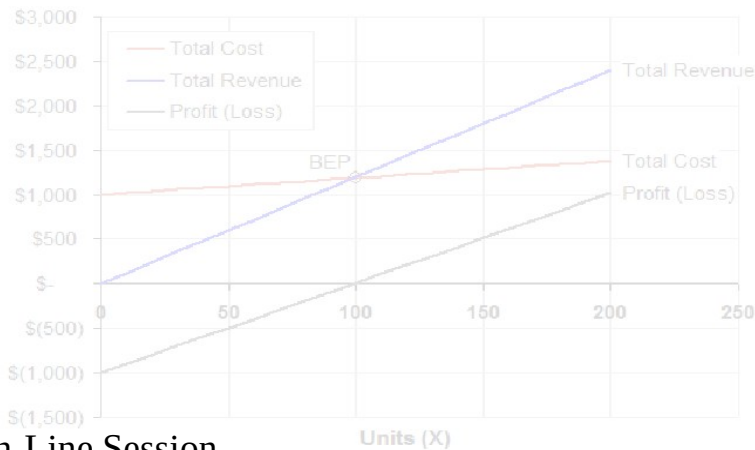
- Letter of credit
- Banker's acceptance

- Money (currency) exchange

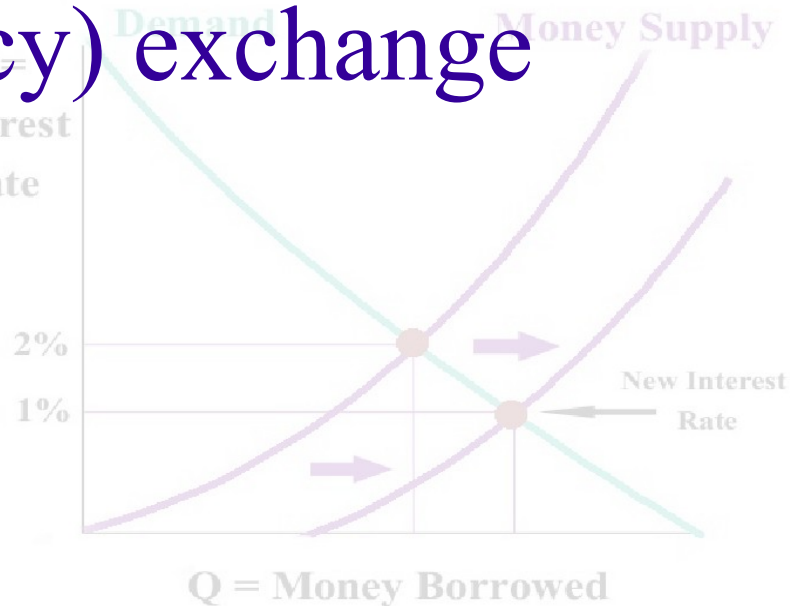
MERGERS AND ACQUISITIONS



Break-Even Point



Interest Rate



Product Lifecycle Stages



Commercial banks

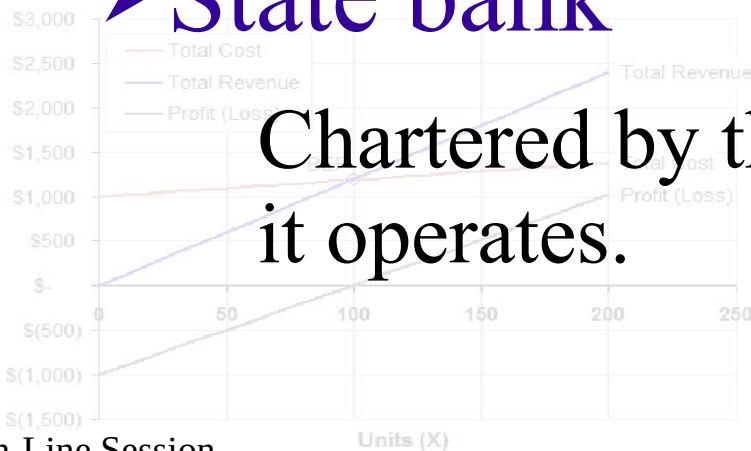
➤ Profit-making organization that accepts deposits, makes loans, and provides related services to its customers

➤ National bank

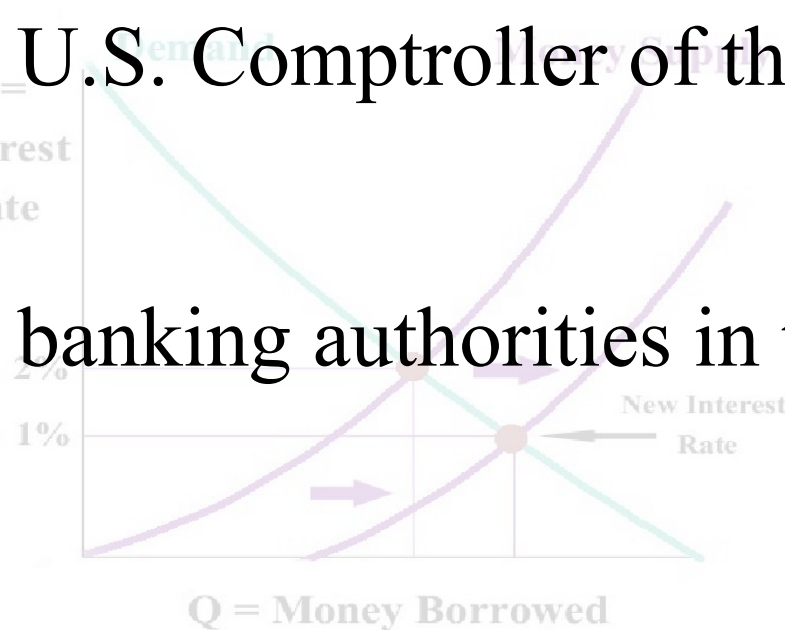
Chartered by the U.S. Comptroller of the Currency.

➤ State bank

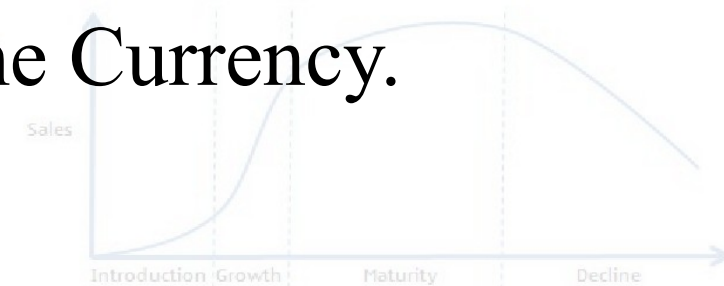
Chartered by the banking authorities in the state in which it operates.



Interest Rate



Product Lifecycle Stages



Largest US banks (2020)

Rank	Bank	Total Revenue (\$ billions)	Profits (\$ billion)	Assets
1	J.P. Morgan Chase (17)	\$142.422	\$36.431	\$2.687T
2	Bank of America (25)	\$113.589	\$27.430	\$2.434T
3	Wells Fargo (30)	\$103.915	\$19.549	\$1.927T
4	Citigroup (31)	\$103.449	\$19.401	\$1.951T
5	Goldman Sachs (60)	\$53.922	\$8.466	\$992B
6	Morgan Stanley (61)	\$53.823	\$9.042	\$895B
7	Capital One Financial (97)	\$33.766	\$5.546	\$390B

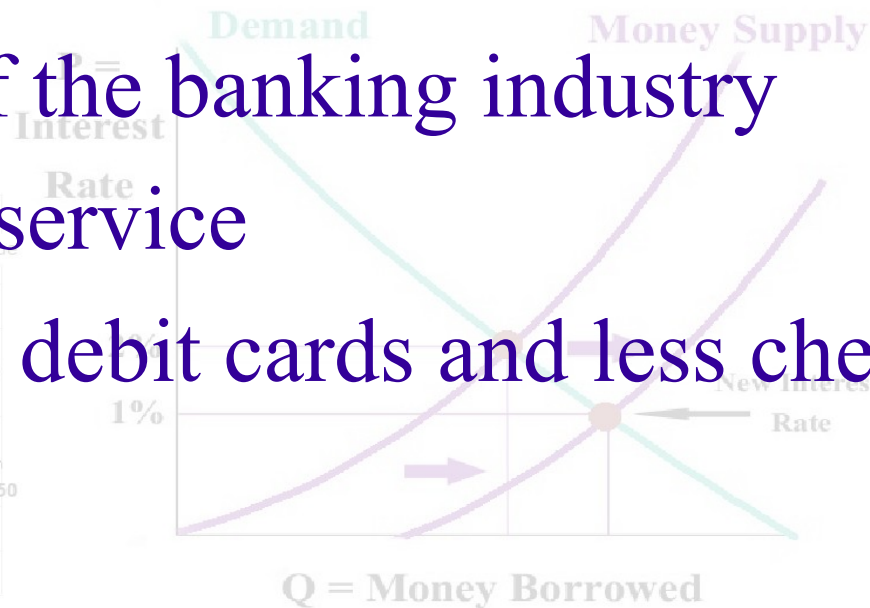
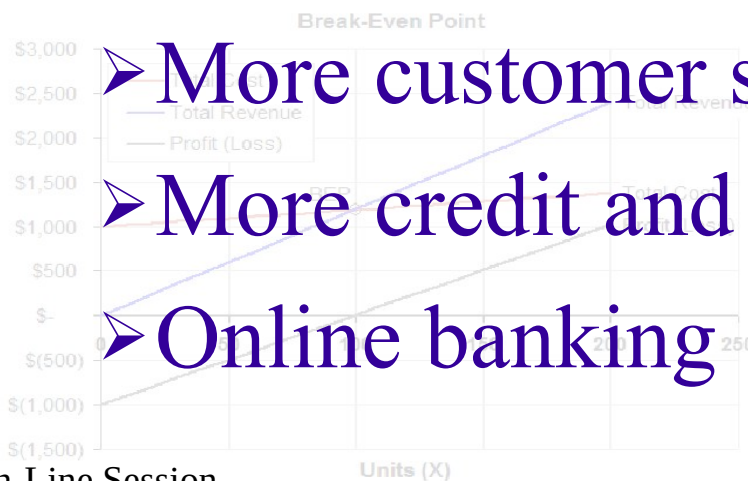
Source: https://fortune.com/fortune500/2020/search/?f500_industry=Commercial%20Banks§or=Financials

Future of banking industry

- Emphasis on evaluating creditworthiness of loan applicants
- More government regulation
- Reduction in the number of banks, S&Ls, credit unions, and financial institutions
- Globalization of the banking industry
- More customer service
- More credit and debit cards and less checks
- Online banking

MERGERS AND ACQUISITIONS

Product Lifecycle Stages



Financial institutions

◆ Bank like financial institutions

- Savings and Loans
- Credit Unions

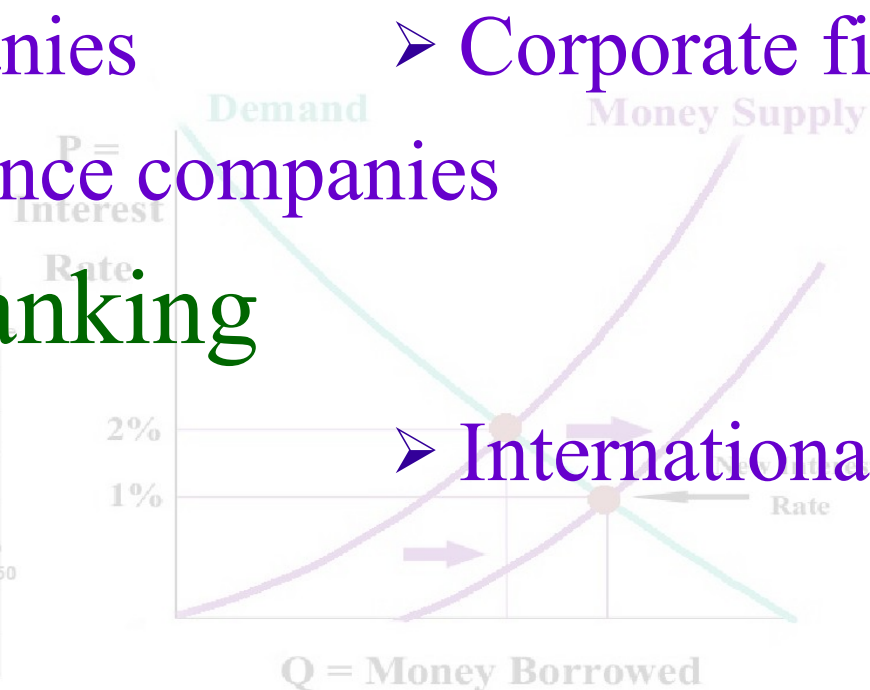
◆ Non-bank financial institutions

- Brokerage firms
- Pension funds
- Insurance companies
- Corporate financial services
- Commercial finance companies

◆ International Banking

- World Bank

- International Monetary Fund

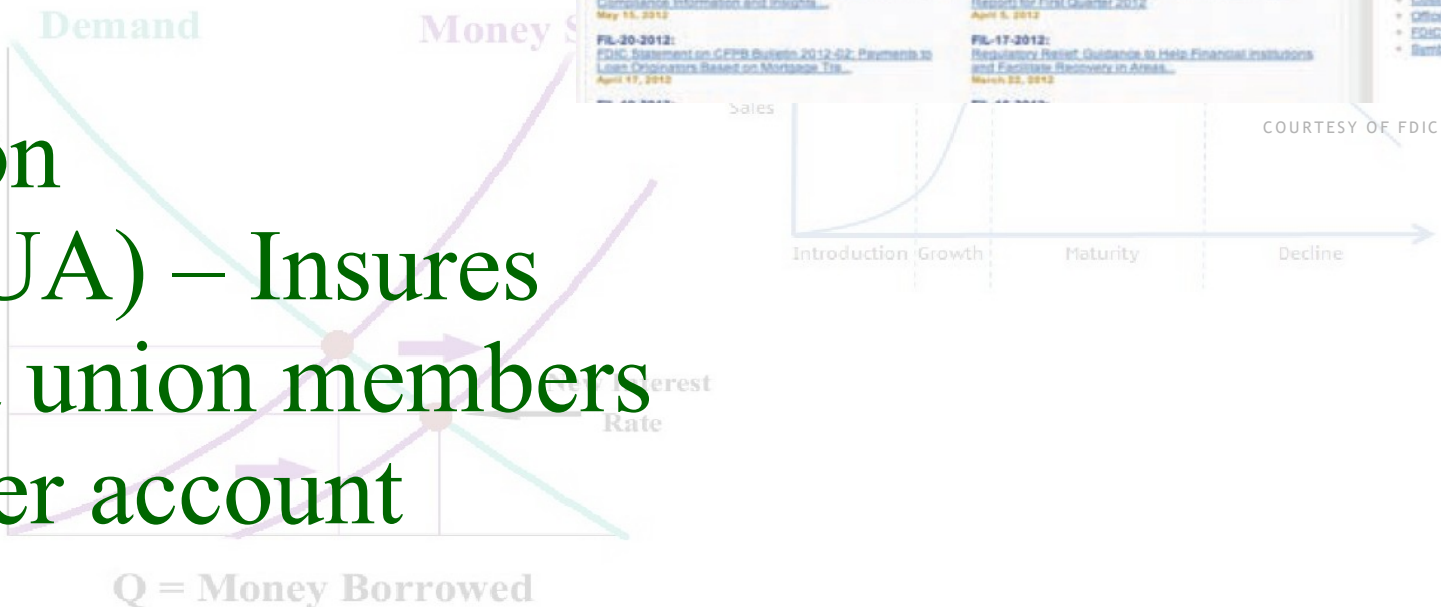
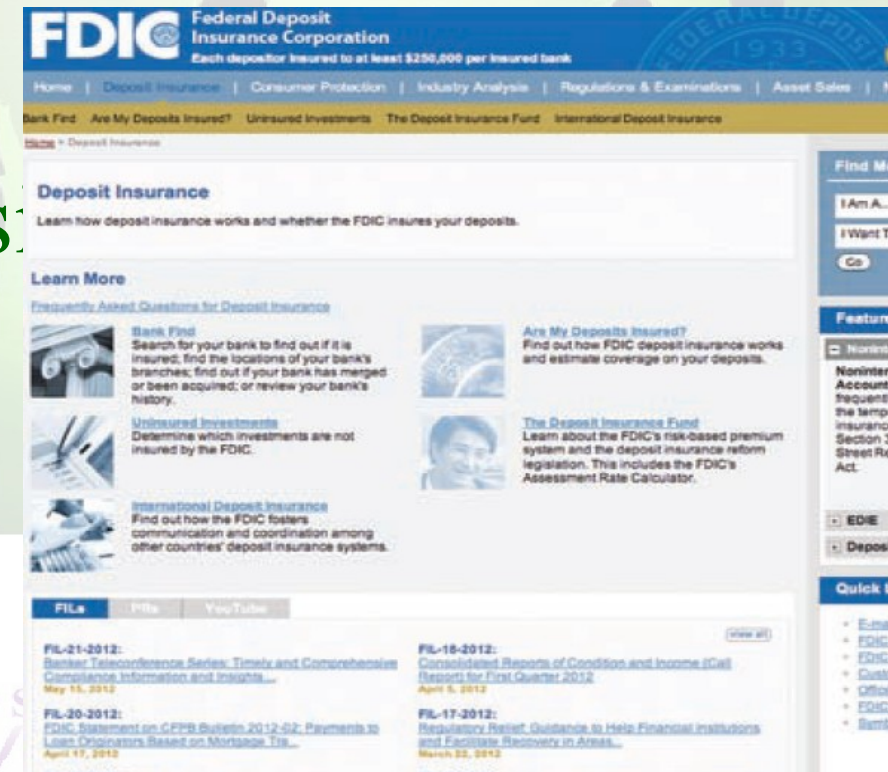


Deposit insurance

- ◆ Federal Deposit Insurance Corporation (FDIC) - Provides basic deposit insurance of \$250,000 per depositor

- Single ownership
- Joint ownership

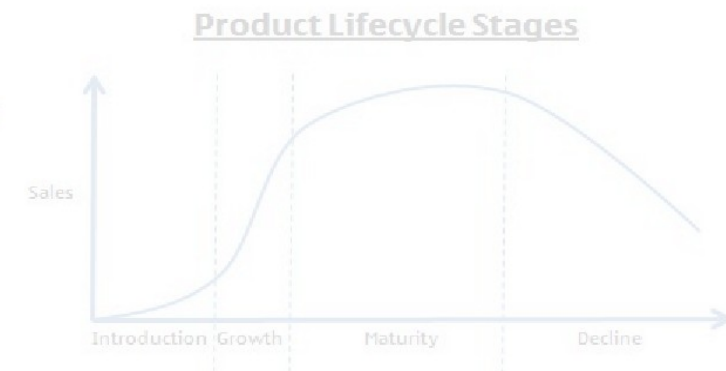
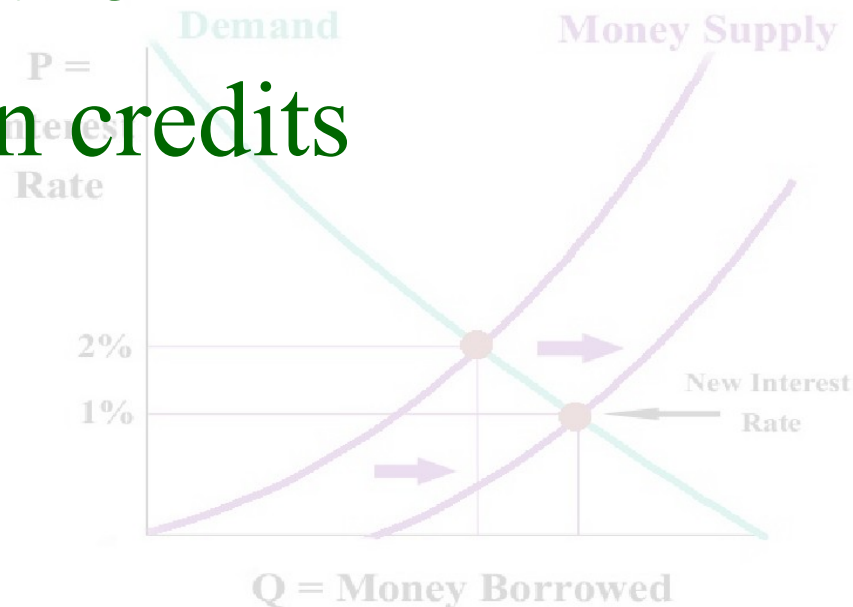
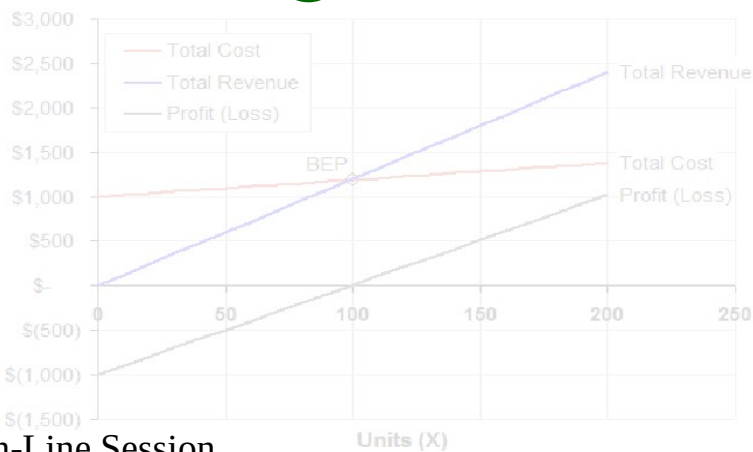
- ◆ National Credit Union Administration (NCUA) – Insures the deposits of credit union members for up to \$250,000 per account



Credit and credit management

- ◆ What is credit?
- ◆ Credit for individual
- ◆ Credit for businesses
- ◆ Credit information
- ◆ Regulations on credits

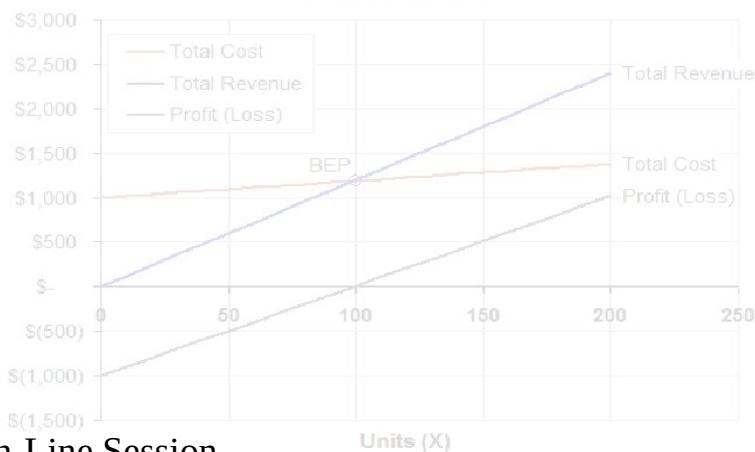
MERGERS AND ACQUISITIONS



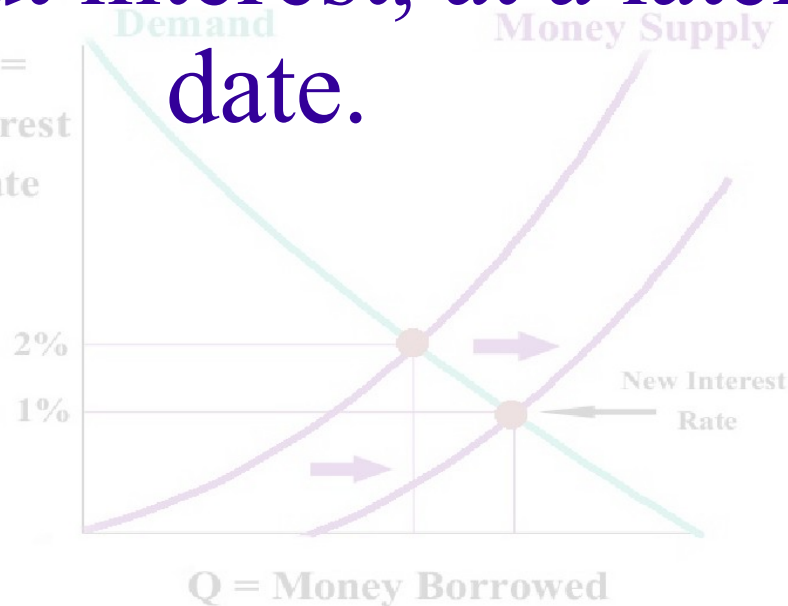
What is credit?

Immediate purchasing power that is exchanged for a promise to repay borrowed money, with or without interest, at a later date.

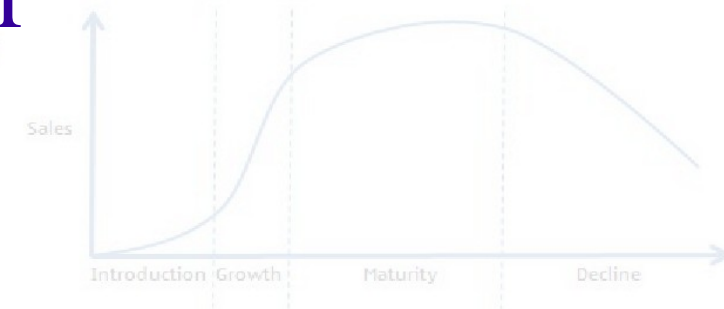
Break-Even Point



P =
Interest
Rate

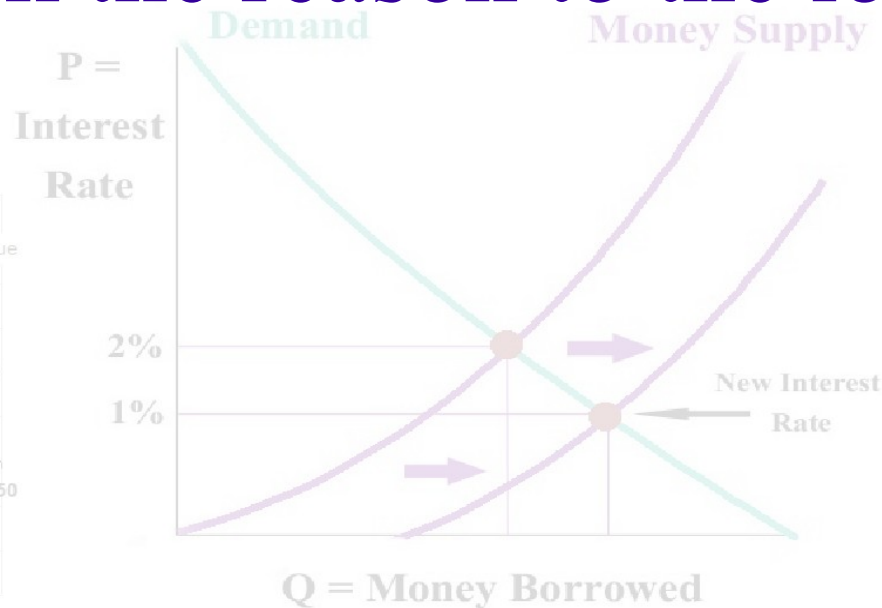
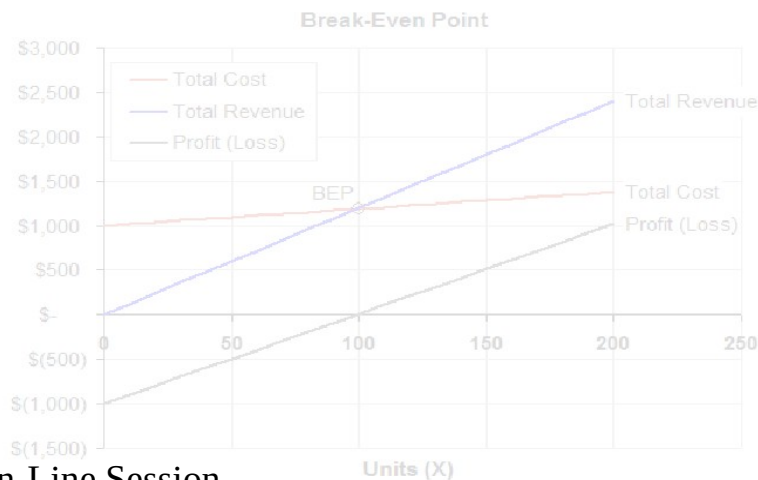


Product Lifecycle Stages



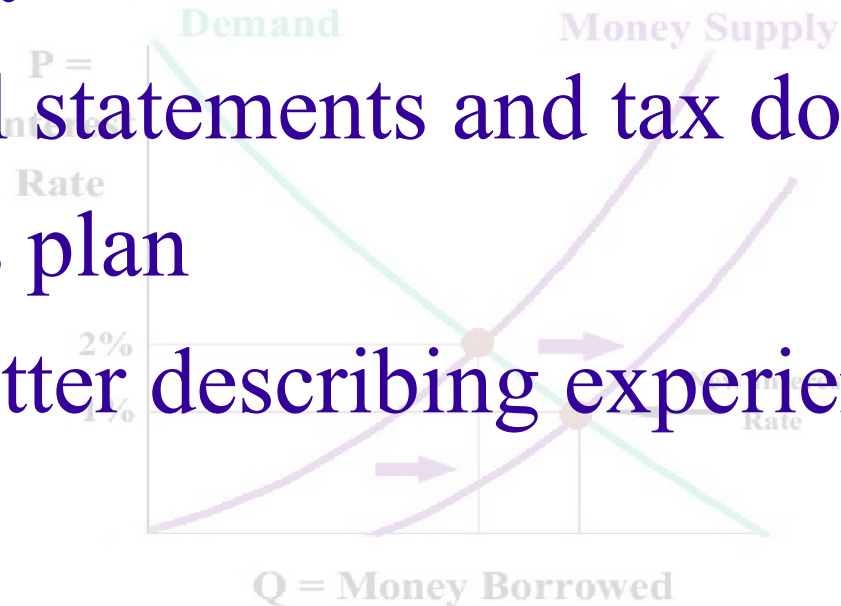
Credit for individuals

- Fill out a loan application
- Describe how the money will be used and repaid
- Prepare for an interview with a loan officer
- If rejected, ask the reason to the loan officer

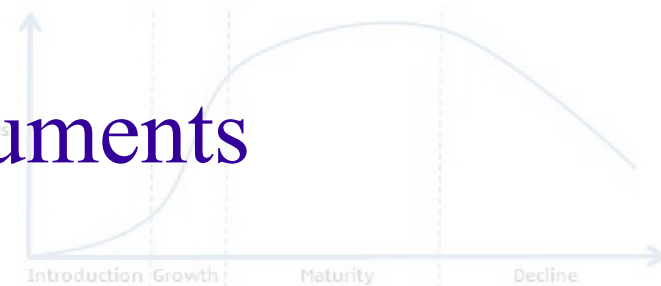


Credit for businesses

- Develop relationship with banker
- Explain business and future plans for expansion, cash-flow, problems, or emergencies
- Apply for pre-approved line of credit or revolving credit agreement
- Supply financial statements and tax documents
- Update business plan
- Prepare cover letter describing experience and the market

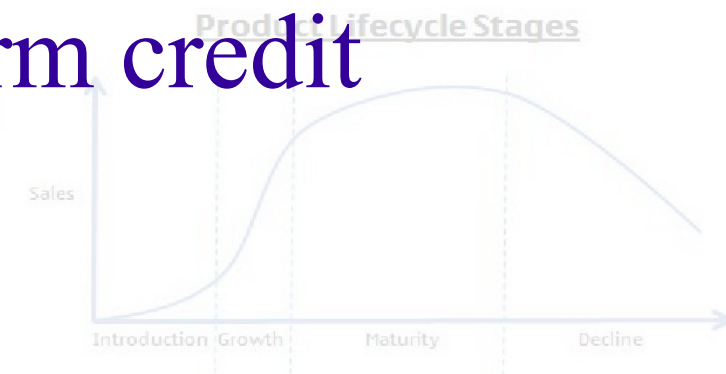
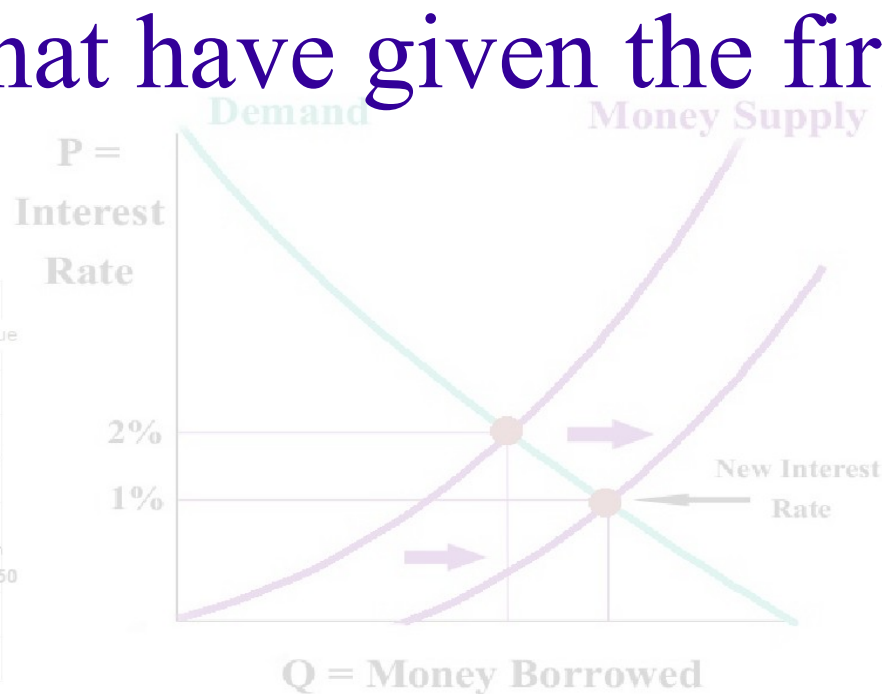
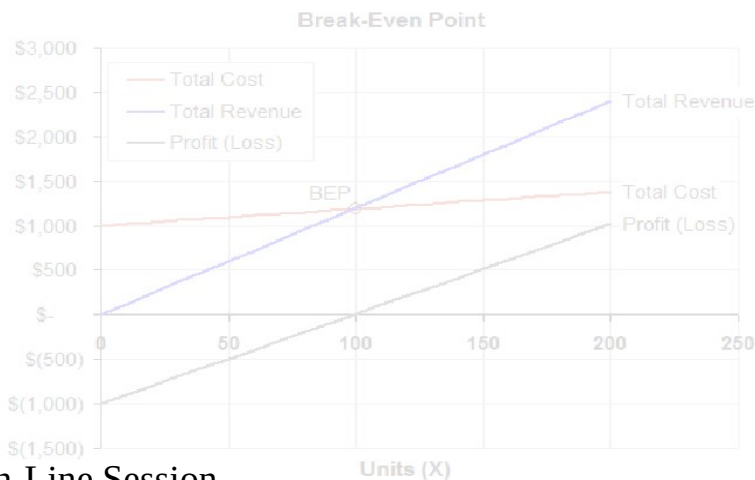


Product Lifecycle Stages



Credit information (Businesses)

- Global credit-reporting agencies
- Local credit-reporting agencies
- Industry associations
- Other firms that have given the firm credit



Credit information (Individual)

➤ Experian

- ❑ www.experian.com
- ❑ Toll-free at 888-397-3742

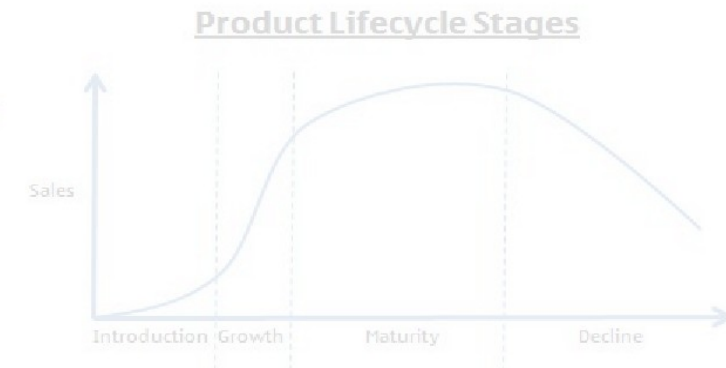
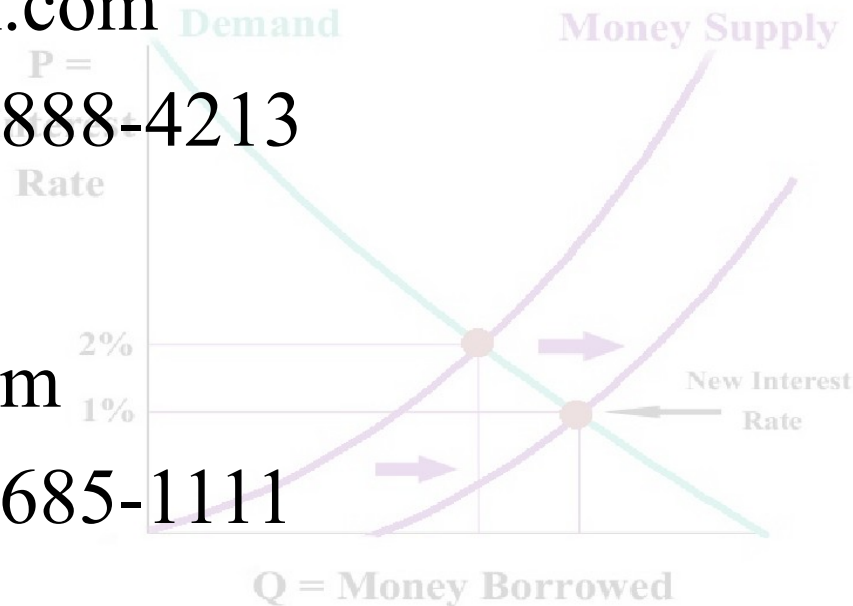
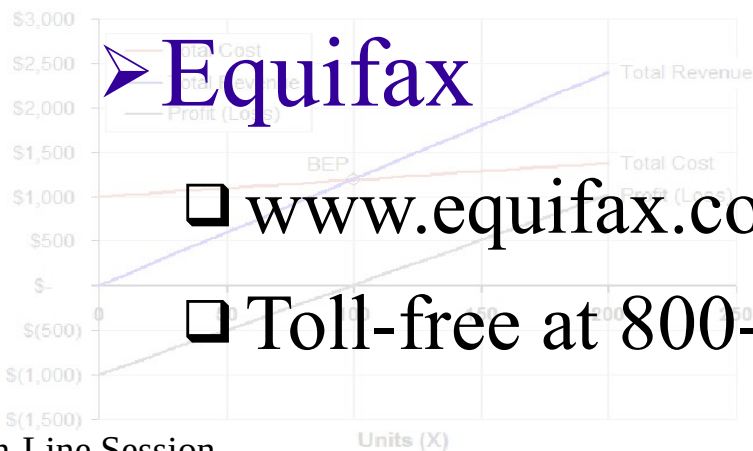
➤ TransUnion

- ❑ www.transunion.com
- ❑ Toll-free at 800-888-4213

➤ Equifax

- ❑ www.equifax.com
- ❑ Toll-free at 800-685-1111

MERGERS AND ACQUISITIONS



Regulation on credits

- Mostly for consumer's protection
- Fair and accurate credit transactions act
- Fair credit reporting act of 2009
- ❑ Know what information is in the credit bureau files
- ❑ Request that information and file a dispute

