

Financial Markets

Definition

Where financial assets (claims) are traded

Social Function

Allocate capital from cash-surplus units (savers) to cash-deficit units (spenders)

Establish price of capital

Enhance rate of capital formation

Assets	Claims
Cash	Accounts payable
Accounts receivable	Notes payable
Inventories	Bonds
Plant	Equity

Also: Allocate risk from those less willing/able to bear it to those more willing/able
Allocate consumption between present and future

Types of Markets and Institutions

Selected Markets

Real v. Financial

Primary v. Secondary ✓

Debt v. Equity ✓

Money v. Capital

Exchange v. Over-the-counter (OTC)

Specialist v. Dealer

Order-driven v. Quote-driven

Derivative

Spot v. Futures

Major Institutions

Brokers

Dealers

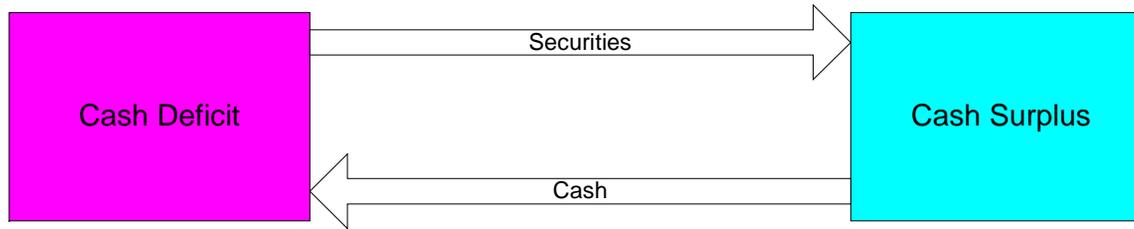
Investment Banks

Intermediaries

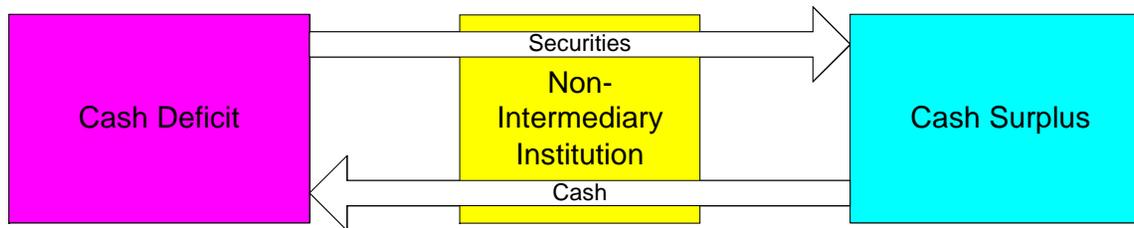
Regulators

Types of Capital Transfers

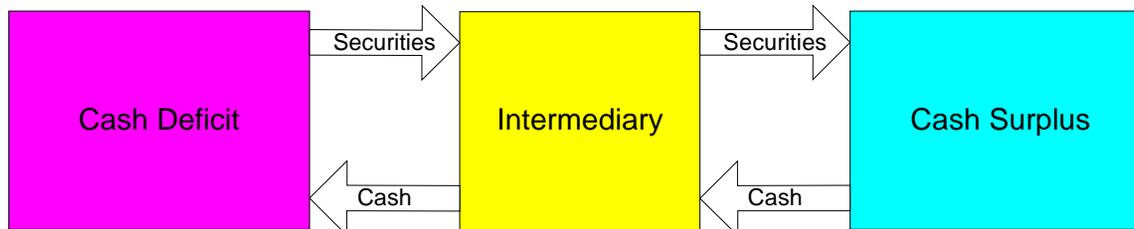
Direct (with or without Broker)



Indirect (underwriter buys, then resells original securities)



Intermediated (Intermediary buys original securities, issues own securities)



Financial Intermediaries

Types

Depository	commercial bank, S&L, MSB, credit union
Contractual	insurance company, pension fund
Investment	mutual fund (money, bond, stock), finance company
Government	mortgage (GNMA, FNMA, FHLMC), agriculture (FCS), education (SLMA),

Intermediation Services (Transformation)

Denomination
Default Risk
Liquidity
Maturity

Advantages of Intermediaries

Cost (e.g., from scale economies)
Expertise (e.g., credit evaluation)