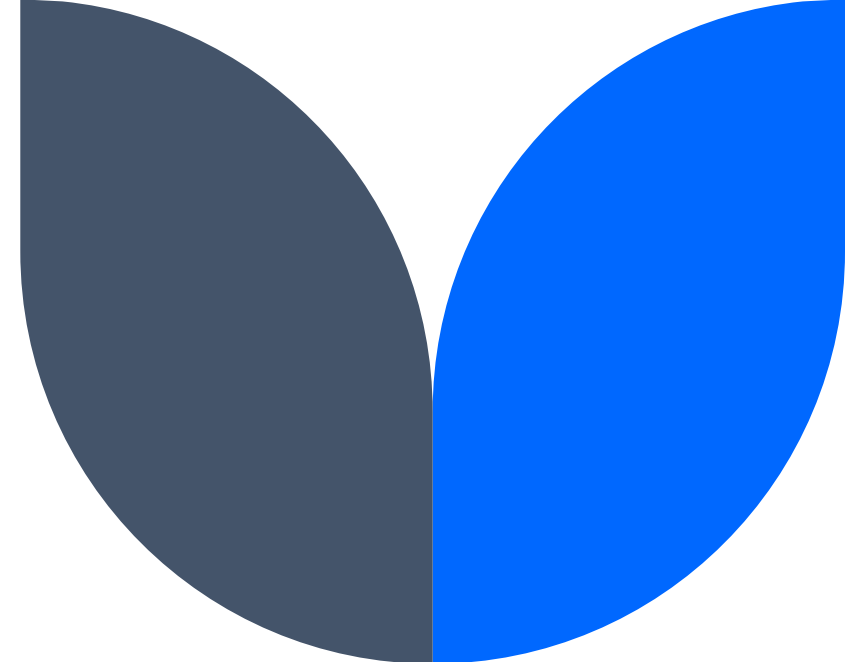
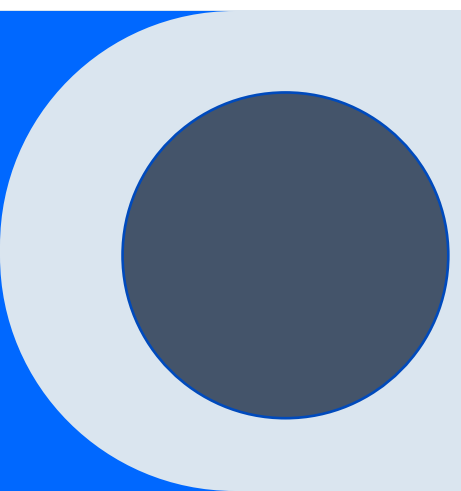




Financial Markets Types

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Chapter Plan

I. Money and Capital Markets

II. Debt and Equity Markets

III. Primary and Secondary Markets

IV. Exchanges and Over-the-Counter Markets

V. Spot Markets and Futures Markets.

VI. Other financial markets.

- **Derivatives Market**
- **Mortgage Market**

Introduction

Now that we understand the basic function of financial markets, let's look at their structure. The following descriptions of several categorizations of financial markets illustrate essential features of these markets.

Classification of Financial Markets



I. Money and Capital Markets

A way of distinguishing between markets is on the basis of the maturity of the securities traded in each market.

- The money market is a financial market in which only short-term debt instruments (generally those with original maturity of less than one year) are traded;
 - The capital market is the market in which longer-term debt (generally those with original maturity of one year or greater) and equity instruments are traded.
- Money market securities are usually more widely traded than longer-term securities and so tend to be more liquid. As a result, corporations and banks actively use the money market to earn interest on surplus funds that they expect to have only temporarily. Capital market securities, such as stocks and long-term bonds, are often held by financial intermediaries such as insurance companies and pension funds, which have little uncertainty about the amount of funds they will have available in the future.

II. Debt and Equity Markets

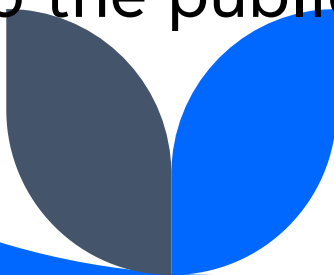
A firm or an individual can obtain funds in a financial market in two ways. The most common method is to issue a debt instrument, such as a bond or a mortgage, which is a contractual agreement by the borrower to pay the holder of the instrument fixed dollar amounts at regular intervals (interest and principal payments) until a specified date (the maturity date), when a final payment is made.

The second method of raising funds is by issuing equities, such as common stock, which are claims to share in the net income (income after expenses and taxes) and the assets of a business.



III. Primary and Secondary Markets

A primary market is a financial market in which new issues of a security, such as a bond or a stock, are sold to initial buyers by the corporation or government agency borrowing the funds. A secondary market is a financial market in which securities that have been previously issued can be resold. The primary markets for securities are not well known to the public because the selling of securities to initial buyers often takes place behind closed doors. An important financial institution that assists in the initial sale of securities in the primary market is the investment bank. It does this by underwriting securities: It guarantees a price for a corporation's securities and then sells them to the public.



IV. Exchanges and Over-the-Counter Markets

Secondary markets can be organized in two ways. One method is to organize exchanges, where buyers and sellers of securities (or their agents or brokers) meet in one central location to conduct trades. The New York Stock Exchange for stocks and the Chicago Board of Trade for commodities (wheat, corn, silver, and other raw materials) are examples of organized exchanges. The other method of organizing a secondary market is to have an over-the-counter (OTC) market, in which dealers at different locations who have an inventory of securities stand ready to buy and sell securities “over the counter” to anyone who comes to them and is willing to accept their prices. Because over-the-counter dealers are in computer contact and know the prices set by one another, the OTC market is very competitive and not very different from a market with an organized exchange

V. Spot markets and futures markets.

- Cash markets are where something sells today, right now, on the spot; in fact, cash markets are often referred to as “spot” markets.
- Futures markets are where you can set a price to buy or sell something at some future date.

A spot market is simply a market where you can buy or sell assets at the current rate – called the spot price. A futures price is a quote for a contract that will be executed at a certain point in the future. The value is linked to the spot price, but whereas spot pricing is used to make immediate trades, futures pricing is used by traders who hope to make a profit by locking in the price now and finalising the sale at some point in the future.

VI. Other financial markets.

Derivative Markets:

Is a segment of the financial market where investors trade derivative instruments whose value is derived from an underlying asset or a set of assets. These instruments can include options, futures, forwards and swaps, each serving distinct purposes in risk management, speculation and portfolio diversification.

Mortgage market:

First things first, a mortgage is any loan that pledges a piece of real estate as collateral. In this case, you're probably most familiar with the mortgage as a home loan.

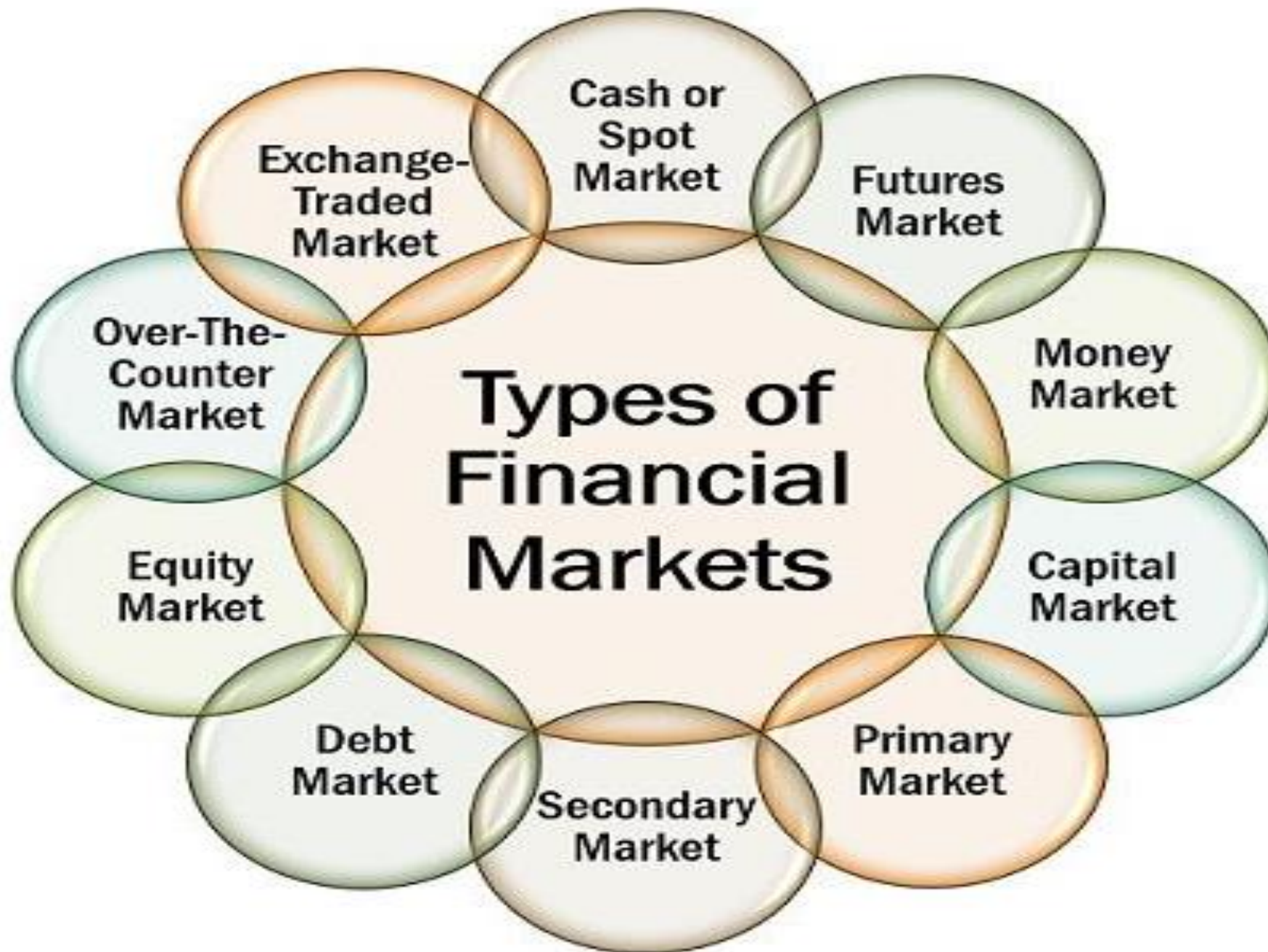
The mortgage market is the structure that supports home lending and it's split into two markets: the primary and secondary.

The primary mortgage market is where home loans originate before they're sold to investors in the secondary mortgage market. For borrowers who are buying a house, the primary mortgage market is designed to help them achieve your goal of homeownership.

What Is the Secondary Mortgage Market?

Mortgage loans are designed to be long-term investments, which is a weakness of the primary market. If banks and mortgage loan originators held onto loans for the life of the term, they would have to wait up to 30 years to be fully paid back. This would limit the amount of funding available for people to get homes.







Thanks

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