



Unit-2

Financial Market

Financial and securities markets are essential components of modern economies, serving as platforms for the buying and selling of financial instruments such as stocks, bonds, currencies, and derivatives. These markets play a crucial role in allocating capital efficiently, facilitating investment, and managing risk.

Here's an introduction to some key concepts within financial and securities markets:

1. Financial Instruments: These are tradable assets that represent a financial value. Common financial instruments include stocks (equities), bonds, mutual funds, exchange-traded funds (ETFs), options, futures, and currencies.

2. Stock Market: Also known as the equity market, this is where shares of publicly-traded companies are bought and sold. Stock markets provide companies with a way to raise capital by selling shares to investors and offer investors the opportunity to gain ownership stakes in these companies.

3. Bond Market: Bonds are debt securities issued by governments, municipalities, corporations, or other entities to raise capital. The bond market allows investors to buy and sell these fixed-income securities, which typically pay a fixed interest rate over a specified period.

4. Foreign Exchange (Forex) Market: This is where currencies are traded. The forex market is the largest and most liquid financial market globally, facilitating international trade and investment by allowing participants to exchange one currency for another.

5. Commodity Market: In commodity markets, raw materials such as gold, oil, agricultural products, and metals are bought and sold. These markets allow producers to hedge against price fluctuations and provide investors with opportunities for portfolio diversification.

6. Derivatives Market: Derivatives are financial contracts whose value is derived from the performance of an underlying asset, index, or entity. Common types of derivatives include futures contracts, options, swaps, and forwards. Derivatives markets enable investors to manage risk, speculate on price movements, and gain exposure to assets without owning them directly.



7. Primary Market vs. Secondary Market: The primary market is where new securities are issued and sold to investors for the first time, typically through initial public offerings (IPOs) or bond issuances. The secondary market, on the other hand, is where existing securities are bought and sold among investors, with prices determined by supply and demand.

8. Regulation: Financial and securities markets are subject to regulation by government authorities and regulatory bodies to ensure fairness, transparency, and stability. Regulations may cover aspects such as market integrity, investor protection, disclosure requirements, and oversight of financial institutions.

Overall, financial and securities markets play a fundamental role in facilitating economic activity, capital formation, and wealth creation. They provide investors with opportunities to allocate capital, manage risk, and achieve their financial objectives, while also serving as essential mechanisms for companies and governments to raise funds and manage their finances.