Unit-2

Financial Market

Financial markets can be categorized into several segments based on the types of assets traded and the participants involved. Here are some key segments and types of financial markets:

1. Stock Market (Equity Market): Where shares of publicly traded companies are bought and sold. Investors can trade stocks through exchanges like the New York Stock Exchange (NYSE) or NASDAQ.

2. Bond Market (Fixed-Income Market): Deals with the buying and selling of debt securities, such as government bonds, corporate bonds, and municipal bonds. Bond markets provide a way for governments and corporations to borrow money from investors.

3. Foreign Exchange Market (Forex): Involves the trading of currencies, where participants buy and sell different currencies based on their exchange rates. The forex market is decentralized and operates 24 hours a day.

4. Commodity Market: Focuses on the trading of physical commodities like gold, oil, agricultural products, and metals. Commodity markets allow producers and consumers to hedge against price fluctuations and manage risk.

5. Derivatives Market: Involves financial instruments whose value is derived from an underlying asset, index, or rate. Examples include options, futures, forwards, and swaps. Derivatives are used for hedging, speculation, and arbitrage.

6. Money Market: Deals with short-term borrowing and lending, typically for periods of one year or less. Money market instruments include Treasury bills, commercial paper, certificates of deposit (CDs), and repurchase agreements (repos).

7. Capital Market: Encompasses the issuance and trading of long-term securities, such as stocks and bonds, used to finance investment projects and business expansion. It includes both the stock market and the bond market.

8. Primary Market: Where new securities are issued and sold for the first time by companies, governments, or other organizations to raise capital. Investors can purchase these securities directly from the issuer through methods like initial public offerings (IPOs) or bond auctions.

9. Secondary Market: Where already issued securities are bought and sold among investors without the involvement of the issuing company or organization. Stock exchanges and over-the-counter (OTC) markets are examples of secondary markets.

These segments of financial markets play a crucial role in the global economy, facilitating investment, capital formation, and risk management.overnments to raise funds and manage their finances.