Finance (Basic)

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Financial markets

Definition:

Financial markets provide channels for allocation of savings to investment.

Functions of FM

Borrowing and Lending

Price determination

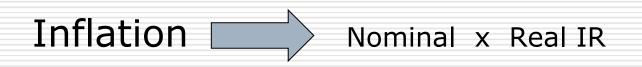
- Information Aggregation and Coordination
- Risk Sharing
- Liquidity

Efficiency

Interest rate

Type of interest:

Simple interest x Compound interest



Major components of FM

Money market (T-Bills,)Capital market (Stocks, ...)

Practical examples

The client saved to the bank from 03/08/2011 to 05/05/2011 an amount of 15,000.00 to an annual interest rate of 8%. How much was the interest during this period?

The client saved for two years 10,000.00 to the bank. The interest rate was 6% per annum. The inflation was in this period 2%. How much got the client from the bank in two years? What was his real gain?

Subtypes of FMs

CM:
FEM
IM
FM
DM
CM
MM

Capital markets

Primary markets

Secondary markets

Secondary market

Spot market

Forward market

The major players in FMs

- Brokers
 Dealers
 Investment Banks
 Einancial Intermedia
 - Financial Intermediaries

Financial market structures







Index

Definition:

□Types of indices:

Efficient-market hypothesis

FMs are informationally efficient.

Three version of the hypothesis:

- 🖵 Weak
- Semi-strong
- Strong

Asymmetric Information in FMs

AI means...

Two types of AI

Adverse selection *is a problem that arises for a buyer of goods, services, or assets when the buyer has difficulty assessing the quality of these items in advance of purchase.* (Loan Markets)

Moral Hazard exists in a market if, after the signing of a purchase agreement between the buyer and seller (of asset) the seller changes his behavior in such a way that the probabilites (risk) used by the buyer to determine the terms of the purchase agreement are no longer accurate.

Thank you for your attention