**Financial Markets :Chapter 12**

Savings and the Financial System

Savings and the Financial System

Savings and Capital Formation

Savings = economic growth

Save = borrow

Financial Assets and the Financial System

Financial system – transfer savings to investors

Financial Assets –

Certificate of deposit

Financial Intermediaries

Circular Flow of Funds -

Nonbank Financial Intermediaries

Nonbank financial institutions –

Finance Companies

Bill consolidation loans

Life Insurance Companies –

Premium-

Mutual Funds

Pension Funds –

Real Estate Investment Trusts -

Investment Strategies and Financial Assets

Basic Investment Considerations

Risk-Return Relationship

Investment Objectives –

Simplicity –

Consistency –

401k plans –

Bonds and Financial Assets

Bond Components

Coupon, maturity, par value

Bond Prices –

Current yield – annual interest divided by the purchase price

Bond Ratings –

Financial Assets and their Characteristics

Certificates of Deposit

Corporate Bonds

Municipal Bonds

Government Savings Bonds

Treasury Notes and Bonds –

Treasury Bills –

Individual Retirement Accounts -

Markets for Financial Assets

 Capital Markets –

 Money Markets –

 Primary Markets –

 Secondary Markets -

Investing in Equities, Futures, and Options

 Market Efficiency – EMH, portfolio diversification, stockbroker

Organized Stock Exchanges

 securities exchanges –

 New York Stock Exchange –

 American Stock Exchange -

 Regional Stock Exchanges -

 Global Stock Exchanges -

Measures of Stock Performance:

 Dow-Jones Industrial Average –

 Standard & Poor’s 500 Bull vs. Bear Markets –

Over the Counter Markets –

Trading in the Future

 Spot market –

 Futures market –

 Options Market – call option, put option