

## 4.4.1 Role of financial markets

- *To facilitate saving*
  - *To lend to businesses and individuals*
  - *To facilitate the exchange of goods and services*
  - *To provide forward markets in currencies and commodities*
  - *To provide a market for equities*
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- Financial market: any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. It provides the means of channelling funds to households, firms and governments
  - Key financial markets:
    - Capital markets: allow individuals to trade financial securities, so allow firms to gain long-term finance. Includes stock markets and bond markets
    - Money markets: for short-term loans such as treasury bills and certificates of deposit
    - Derivatives market: financial instruments such as future contracts where the price depends on the value of the underlying asset
    - FOREX market: market where currencies are traded
  - Role of the financial markets:
    - To facilitate saving: they allow households and businesses to save money by providing a range of accounts with varying degrees of risk and rates of interest
    - To lend to businesses and individuals: they enable the connection between households and businesses which have savings with those who need to borrow
    - To facilitate the exchange of goods and services: it handles millions of transactions each day including: payment in shops and online, receiving payments and settling debt
    - To provide forward markets in commodities and contracts: forward markets set the price of an asset such as a commodity or financial instrument. They can be used for both hedging and speculation.
    - To provide a market for equities: stockmarkets give companies access to capital and investors a share of ownership in companies
  - Hedge: an investment to reduce the risk of adverse price movements in an asset