DOWNLOAD PDF FINANCIAL MARKET OPERATIONS NOTES

Chapter 1 : Financial Market Definition | Investopedia

Book Description. A comprehensive text on financial market operations management. Financial Market Operations Management offers anyone involved with administering, maintaining, and improving the IT systems within financial institutions a comprehensive text that covers all the essential information for managing operations.

Nominal Interest Rates Basic Terms: An asset is anything of durable value, that is, anything that acts as a means to store value over time. Real assets are assets in physical form e. Financial assets are claims against real assets, either directly e. Securities are financial assets exchanged in auction and over-the-counter markets see below whose distribution is subject to legal requirements and restrictions e. Lenders are people who have available funds in excess of their desired expenditures that they are attempting to loan out, and borrowers are people who have a shortage of funds relative to their desired expenditures who are seeking to obtain loans. A financial market is a market in which financial assets are traded. In addition to enabling exchange of previously issued financial assets, financial markets facilitate borrowing and lending by facilitating the sale by newly issued financial assets. Examples of financial markets include the New York Stock Exchange resale of previously issued stock shares , the U. Treasury bills auction sales of newly issued T-bills. A financial institution is an institution whose primary source of profits is through financial asset transactions. Examples of such financial institutions include discount brokers e. Introduction to Financial Markets and Institutions: Financial markets serve six basic functions. These functions are briefly listed below: Financial markets permit the transfer of funds purchasing power from one agent to another for either investment or consumption purposes. Financial markets provide vehicles by which prices are set both for newly issued financial assets and for the existing stock of financial assets. Information Aggregation and Coordination: Financial markets act as collectors and aggregators of information about financial asset values and the flow of funds from lenders to borrowers. Financial markets allow a transfer of risk from those who undertake investments to those who provide funds for those investments. Financial markets provide the holders of financial assets with a chance to resell or liquidate these assets. Financial markets reduce transaction costs and information costs. In attempting to characterize the way financial markets operate, one must consider both the various types of financial institutions that participate in such markets and the various ways in which these markets are structured. Who are the Major Players in Financial Markets? By definition, financial institutions are institutions that participate in financial markets, i. At present in the United States, financial institutions can be roughly classified into the following four categories: A broker is a commissioned agent of a buyer or seller who facilitates trade by locating a seller or buyer to complete the desired transaction. A broker does not take a position in the assets he or she trades -- that is, the broker does not maintain inventories in these assets. The profits of brokers are determined by the commissions they charge to the users of their services either the buyers, the sellers, or both. Examples of brokers include real estate brokers and stock brokers. Diagrammatic Illustration of a Stock Broker: Like brokers, dealers facilitate trade by matching buyers with sellers of assets; they do not engage in asset transformation. Unlike brokers, however, a dealer can and does "take positions" i. Also, unlike brokers, dealers do not receive sales commissions. Rather, dealers make profits by buying assets at relatively low prices and reselling them at relatively high prices buy low - sell high. Real-world examples of dealers include car dealers, dealers in U. Diagrammatic Illustration of a Bond Dealer: An investment bank assists in the initial sale of newly issued securities i. Advising corporations on whether they should issue bonds or stock, and, for bond issues, on the particular types of payment schedules these securities should offer; Underwriting: Guaranteeing corporations a price on the securities they offer, either individually or by having several different investment banks form a syndicate to underwrite the issue jointly; Sales Assistance: Assisting in the sale of these securities to the public. Some of the best-known U. Unlike brokers, dealers, and investment banks, financial intermediaries are financial institutions that engage in financial asset transformation. That is, financial intermediaries purchase one kind of financial asset from borrowers -- generally some kind of long-term loan contract whose terms are adapted to the specific circumstances of the borrower e. In addition, unlike brokers and dealers, financial intermediaries typically hold financial assets as part of an investment portfolio rather than as an inventory for resale. In addition to making profits on their investment portfolios, financial intermediaries make profits by charging relatively high interest rates to borrowers and paying relatively low interest rates to savers. Types of financial intermediaries include: Depository Institutions commercial banks, savings and loan associations, mutual savings banks, credit unions ; Contractual Savings Institutions life insurance companies, fire and casualty insurance companies, pension funds, government retirement funds ; and Investment Intermediaries finance companies, stock and bond mutual funds, money market mutual funds. Diagrammatic Example of a Financial Intermediary: A Commercial Bank Important Caution: These four types of financial institutions are simplified idealized classifications, and many actual financial institutions in the fast-changing financial landscape today engage in activities that overlap two or more of these classifications, or even to some extent fall outside these classifications. A prime example is Merrill Lynch, which simultaneously acts as a broker, a dealer taking positions in certain stocks and bonds it sells , a financial intermediary e. The costs of collecting and aggregating information determine, to a large extent, the types of financial market structures that emerge. These structures take four basic forms: Specifically, organized exchanges permit buyers and sellers to trade with each other in a centralized location, like an auction. However, securities are traded on the floor of the exchange with the help of specialist traders who combine broker and dealer functions. The specialists broker trades but also stand ready to buy and sell stocks from personal inventories if buy and sell orders do not match up. Intermediation financial markets conducted through financial intermediaries; Financial markets taking the first three forms are generally referred to as securities markets. Some financial markets combine features from more than one of these categories, so the categories constitute only rough guidelines. An auction market is some form of centralized facility or clearing house by which buyers and sellers, through their commissioned agents brokers , execute trades in an open and competitive bidding process. The "centralized facility" is not necessarily a place where buyers and sellers physically meet. Rather, it is any institution that provides buyers and sellers with a centralized access to the bidding process. All of the needed information about offers to buy bid prices and offers to sell asked prices is centralized in one location which is readily accessible to all would-be buyers and sellers, e. No private exchanges between individual buyers and sellers are made outside of the centralized facility. An auction market is typically a public market in the sense that it open to all agents who wish to participate. Auction markets can either be call markets -- such as art auctions -- for which bid and asked prices are all posted at one time, or continuous markets -- such as stock exchanges and real estate markets -- for which bid and asked prices can be posted at any time the market is open and exchanges take place on a continual basis. Experimental economists have devoted a tremendous amount of attention in recent years to auction markets. Many auction markets trade in relatively homogeneous assets e. Alternatively, some auction markets e. This inspection can take the form of a warehouse tour, a catalog issued with pictures and descriptions of items to be sold, or in televised auctions a time during which assets are simply displayed one by one to viewers prior to bidding. Auction markets depend on participation for any one type of asset not being too "thin. Consequently, auction markets depend on volume to spread these costs over a wide number of participants. An over-the-counter market has no centralized mechanism or facility for trading. Instead, the market is a public market consisting of a number of dealers spread across a region, a country, or indeed the world, who make the market in some type of asset. That is, the dealers themselves post bid and asked prices for this asset and then stand ready to buy or sell units of this asset with anyone who chooses to trade at these posted prices. The dealers provide customers more flexibility in trading than brokers, because dealers can offset imbalances in the demand and supply of assets by trading out of their own accounts. An intermediation financial market is a financial market in which financial intermediaries help transfer funds from savers to borrowers by issuing certain types of financial assets to savers and receiving other types of financial assets from borrowers. The financial assets issued to savers are claims against the financial intermediaries, hence liabilities of the financial intermediaries, whereas the financial assets received from borrowers are claims against the borrowers, hence assets of the financial intermediaries. See the diagrammatic illustration of a financial intermediary presented earlier in these notes. Primary markets are securities markets in which newly issued securities are offered for sale to buyers. Secondary markets are securities markets in which existing securities that have previously been issued are resold. The initial issuer raises funds only through the primary market. Debt Versus Equity Markets: Debt instruments are particular types of securities that require the issuer the borrower to pay the holder the lender certain fixed dollar amounts at regularly scheduled intervals until a specified time the maturity date is reached, regardless of the success or failure of any investment projects for which the borrowed funds are used. A debt instrument holder only participates in the management of the debt instrument issuer if the issuer goes bankrupt. An example of a debt instrument is a year mortgage. In contrast, an equity is a security that confers on the holder an ownership interest in the issuer. There are two general categories of equities: This implies that the return that holders of common stock receive depends on the economic performance of the issuing corporation. However, the payment of dividends is not a contractual or legal requirement. Even if net earnings are positive, a corporation is not obliged to distribute dividends to shareholders. For example, a corporation might instead choose to keep its profits as retained earnings to be used for new capital investment self-financing of investment rather than debt or equity financing. On the other hand, corporations cannot charge losses to their common stock shareholders. Consequently, these shareholders at most risk losing the purchase price of their shares, a situation which arises if the market price of their shares declines to zero for any reason. An example of a common stock share is a share of IBM. In contrast, preferred stock shares are usually issued with a par value e. In addition, like debt holders but unlike common stock holders, preferred stock holders generally do not participate in the management of issuers through voting or other means unless the issuer is in extreme financial distress e. Consequently, preferred stock combines some of the basic attributes of both debt and common stock and is often referred to as a hybrid security. Money versus Capital Markets:

Chapter 2 : Financial Markets Operations Management [Book]

Model Answer/Suggested Solutions Financial Market Operations AS Page 5 of 8 (iv) There should be an online graphic system on the bidding terminals which updates / refreshes at least every 30 minutes.

Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade. Financial markets can be found in nearly every nation in the world. Some are very small, with only a few participants, while others - like the New York Stock Exchange NYSE and the forex markets - trade trillions of dollars daily. Investors have access to a large number of financial markets and exchanges representing a vast array of financial products. Some of these markets have always been open to private investors; others remained the exclusive domain of major international banks and financial professionals until the very end of the twentieth century. Capital Markets A capital market is one in which individuals and institutions trade financial securities. Organizations and institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets. Any government or corporation requires capital funds to finance its operations and to engage in its own long-term investments. These are bought and sold in the capital markets. Stock Markets Stock markets allow investors to buy and sell shares in publicly traded companies. This market can be split into two main sections: The primary market is where new issues are first offered, with any subsequent trading going on in the secondary market. Bond Markets A bond is a debt investment in which an investor loans money to an entity corporate or governmental , which borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U. Bonds can be bought and sold by investors on credit markets around the world. This market is alternatively referred to as the debt, credit or fixed-income market. The main categories of bonds are corporate bonds, municipal bonds, and U. Treasury bonds, notes and bills, which are collectively referred to as simply "Treasuries. Money Market The money market is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Treasury bills, commercial paper, municipal notes, eurodollars, federal funds and repurchase agreements repos. Money market investments are also called cash investments because of their short maturities. The money market is used by a wide array of participants, from a company raising money by selling commercial paper into the market to an investor purchasing CDs as a safe place to park money in the short term. The money market is typically seen as a safe place to put money due the highly liquid nature of the securities and short maturities. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities. However, there are risks in the money market that any investor needs to be aware of, including the risk of default on securities such as commercial paper. To learn more, read our Money Market Tutorial. Cash or Spot Market Investing in the cash or " spot " market is highly sophisticated, with opportunities for both big losses and big gains. In the cash market, goods are sold for cash and are delivered immediately. By the same token, contracts bought and sold on the spot market are immediately effective. Prices are settled in cash "on the spot" at current market prices. This is notably different from other markets, in which trades are determined at forward prices. The cash market is complex and delicate, and generally not suitable for inexperienced traders. The cash markets tend to be dominated by so-called institutional market players such as hedge funds, limited partnerships and corporate investors. The very nature of the products traded requires access to far-reaching, detailed information and a high level of macroeconomic analysis and trading skills. Derivatives Markets The derivative is named so for a reason: A derivative is a contract, but in this case the contract price is determined by the market price of the core asset. The derivatives market adds yet another layer of complexity and is therefore not ideal for inexperienced traders looking to speculate. However, it can be used quite effectively as part of a risk management program. Examples of common derivatives are forwards , futures , options , swaps and contracts-for-difference CFDs. There are also many derivatives, structured products and collateralized obligations available, mainly in the over-the-counter non-exchange market, that professional investors, institutions and hedge fund managers use to varying degrees but that play an insignificant role in private investing. Forex and the Interbank Market The interbank market is the financial system and trading of currencies among banks and financial institutions, excluding retail investors and smaller trading parties. The forex market is where currencies are traded. The forex is the largest market in the world in terms of the total cash value traded, and any person, firm or country may participate in this market. There is no central marketplace for currency exchange; trade is conducted over the counter. Until recently, forex trading in the currency market had largely been the domain of large financial institutions, corporations, central banks , hedge funds and extremely wealthy individuals. The emergence of the internet has changed all of this, and now it is possible for average investors to buy and sell currencies easily with the click of a mouse through online brokerage accounts. Secondary Markets A primary market issues new securities on an exchange. Companies, governments and other groups obtain financing through debt or equity based securities. Primary markets, also known as "new issue markets," are facilitated by underwriting groups, which consist of investment banks that will set a beginning price range for a given security and then oversee its sale directly to investors. The primary markets are where investors have their first chance to participate in a new security issuance. The issuing company or group receives cash proceeds from the sale, which is then used to fund operations or expand the business. The secondary market is where investors purchase securities or assets from other investors, rather than from issuing companies themselves. The Securities and Exchange Commission SEC registers securities prior to their primary issuance, then they start trading in the secondary market on the New York Stock Exchange, Nasdaq or other venue where the securities have been accepted for listing and trading. To learn more about the primary and secondary market, read Markets Demystified. The secondary market is where the bulk of exchange trading occurs each day. Primary markets can see increased volatility over secondary markets because it is difficult to accurately gauge investor demand for a new security until several days of trading have occurred. In the primary market, prices are often set beforehand, whereas in the secondary market only basic forces like supply and demand determine the price of the security. Secondary markets exist for other securities as well, such as when funds, investment banks or entities such as Fannie Mae purchase mortgages from issuing lenders. This generally means that the stock trades either on the over-the-counter bulletin board OTCBB or the pink sheets. Neither of these networks is an exchange; in fact, they describe themselves as providers of pricing information for securities. OTCBB and pink sheet companies have far fewer regulations to comply with than those that trade shares on a stock exchange. Most securities that trade this way are penny stocks or are from very small companies. Third and Fourth Markets You might also hear the terms "third" and "fourth markets. These markets deal with transactions between broker-dealers and large institutions through over-the-counter electronic networks. The third market comprises OTC transactions between broker-dealers and large institutions. The fourth market is made up of transactions that take place between large institutions. The main reason these third and fourth market transactions occur is to avoid placing these orders through the main exchange, which could greatly affect the price of the security. Because access to the third and fourth markets is limited, their activities have little effect on the average investor. Financial institutions and financial markets help firms raise money. They can do this by taking out a loan from a bank and repaying it with interest, issuing bonds to borrow money from investors that will be repaid at a fixed interest rate, or offering investors partial ownership in the company and a claim on its residual cash flows in the form of stock.

Chapter 3 : Financial market - Wikipedia

1 Chapter 1 -- An Overview of Financial Management â€¢ What is finance: cash flows between capital markets and firm's operations â€¢ The goal of a firm.

See Statistical analysis of financial markets , statistical finance Much effort has gone into the study of financial markets and how prices vary with time. This is the basis of the so-called technical analysis method of attempting to predict future changes. One of the tenets of "technical analysis" is that market trends give an indication of the future, at least in the short term. The claims of the technical analysts are disputed by many academics, who claim that the evidence points rather to the random walk hypothesis , which states that the next change is not correlated to the last change. The role of human psychology in price variations also plays a significant factor. Large amounts of volatility often indicate the presence of strong emotional factors playing into the price. Fear can cause excessive drops in price and greed can create bubbles. In recent years the rise of algorithmic and high-frequency program trading has seen the adoption of momentum, ultra-short term moving average and other similar strategies which are based on technical as opposed to fundamental or theoretical concepts of market Behaviour. The scale of changes in price over some unit of time is called the volatility. Large changes up or down are more likely than what one would calculate using a Gaussian distribution with an estimated standard deviation. Financial market slang[edit] Poison pill , when a company issues more shares to prevent being bought out by another company, thereby increasing the number of outstanding shares to be bought by the hostile company making the bid to establish majority. Bips, meaning "bps" or basis points. A basis point is a financial unit of measurement used to describe the magnitude of percent change in a variable. One basis point is the equivalent of one hundredth of a percent. Quant, a quantitative analyst with advanced training in mathematics and statistical methods. Rocket scientist , a financial consultant at the zenith of mathematical and computer programming skill. They are able to invent derivatives of high complexity and construct sophisticated pricing models. They generally handle the most advanced computing techniques adopted by the financial markets since the early s. Typically, they are physicists and engineers by training. IPO , stands for initial public offering, which is the process a new private company goes through to "go public" or become a publicly traded company on some index. White Knight , a friendly party in a takeover bid. Used to describe a party that buys the shares of one organization to help prevent against a hostile takeover of that organization by another party. Smurfing , a deliberate structuring of payments or transactions to conceal it from regulators or other parties, a type of money laundering that is often illegal. Bidâ€”ask spread , the difference between the highest bid and the lowest offer. Pip , smallest price move that a given exchange rate makes based on market convention. The intermediary functions of financial markets include the following: Financial markets facilitate the transfer of real economic resources from lenders to ultimate borrowers. Financial markets allow lenders to earn interest or dividend on their surplus invisible funds, thus contributing to the enhancement of the individual and the national income. Financial markets allow for the productive use of the funds borrowed. The enhancing the income and the gross national production. Financial markets provide a channel through which new savings flow to aid capital formation of a country. Financial markets allow for the determination of price of the traded financial assets through the interaction of buyers and sellers. They provide a sign for the allocation of funds in the economy based on the demand and to the supply through the mechanism called price discovery process. Financial markets provide a mechanism for selling of a financial asset by an investor so as to offer the benefit of marketability and liquidity of such assets. The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the market. So as to reduce the cost of transaction of financial assets. Financial Functions Providing the borrower with funds so as to enable them to carry out their investment plans. Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in production debentures. Providing liquidity in the market so as to facilitate trading of funds. Providing liquidity to commercial bank Facilitating credit creation.

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Chapter 4 : Types Of Financial Markets And Their Roles

A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives.

Securities Market Primary Market: Secondary Market can be basically divided into two â€" spot market and forward market. Again, there are two types of options â€" put option and call option. The Reserve Bank of India is the leader of the money market in India. Capital Market Capital Market is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue various securities such as shares, debentures, bonds, etc. The securities market has two different segments namely primary and secondary market. Primary Market vs Secondary Market: The primary market consists of arrangements for procurement of long-term funds by companies by fresh issue of shares and debentures. The secondary market or stock exchange provides a ready market for existing long term securities. It is an organised market where all transactions are regulated by the rules and laws of the concerned stock exchanges. Secondary Markets or Stock Exchanges: The functions of a stock exchanges are to provide ready and continuous market for securities, information about prices and sales, safety to dealings and investment, helps mobilisation of savings and capital formation. It acts as a barometer of economic and business conditions and helps in better allocation of funds. Stock exchanges provide many benefits to companies, investors and the society as a whole. But they also suffer from limitations like exclusive speculation and fluctuation in prices due to rumours and unpredictable events. SEBI has initiated a number of reforms in the primary and secondary market to regulate the stock market. The secondary market has further two components. First, the spot market where securities are traded for immediate delivery and payment. Money Market and Capital Market: A comparison Point of Distinction.

Chapter 5 : Functions of Financial Market - Finance | Management Notes â€“ Management Notes

View Notes - Financial_Market_Operations_GuidanceQuestions from BANKING DABF at University of Ruhuna. INSTITUTE OF BANKERS OF SRI LANKA Diploma in Applied Banking and Finance (DABF) Financial Markets.

Chapter 6 : Financial Market : Money Market and Capital Market - Clear IAS

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Chapter 7 : Introduction to Financial Markets (Econ , Tesfatsion)

FINANCIAL MARKETSâ€¢Market where entitiescan trade financial securities, commodities, at low transactioncosts and at prices that reflect supply and demand.â€¢Securities include stocks and bonds, and commodities includeprecious metals or agricultural goods.

Chapter 8 : Financial market operations management (eBook,) [calendrierdelascience.com]

An intermediation financial market is a financial market in which financial intermediaries help transfer funds from savers to borrowers by issuing certain types of financial assets to savers and receiving other types of financial assets from borrowers. The financial assets issued to savers are claims against the financial intermediaries, hence.

Chapter 9 : Financial Market Operations â€“ AUTIN&Co

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A financial market is a market in which people trade financial securities and derivatives such as futures and options at low transaction costs. Securities include stocks and bonds, and precious metals.