Financial Market

Money Market → short-term financial instruments "Debt instrumunts only"
ex:- Negotiable and non-negotiable CD's, Commercial Peapers, treasurry bills and re-Purchase agreement

Capital Market → long-term financial instrumunts "Debt and Equity instrumunts"
ex: long-term bond, C/S and P/s

Ch.1 The role of financial markets and Institution.

This topic existis in "financial economics"

→ financial system

3 elements of any financial system :-

what / 1. financial instrumunt. "financial (Assets), financial claims"
where / 2. financial markets
through / 3. financial institutions. "financial intermediaries"

financial system: financial instrumunt where they exist in the financial market through financial institutions.

* financial market (Physical, Virtual) → where financial instrumunts are so... : Debt, Equity and financial derivatives

* financial derivative for insibiculation and Risk Management.

* chaniling for fund through financial institution.

Financial markets :- Market where financial securities are traded. "transfer fund from supplier to demander"

$\underbrace{\text{supplier}}_{\text{surplus unit}}$ $\underbrace{\text{demander}}_{\text{Deficit unit}}$

3 Groups of financial system :-

1. Government "Net demander of fund"
2. Business " " " " "
3. Individuals "Net supplier of fund"

Individuals $\xrightarrow{\text{Deposit}}$ Bank $\xrightarrow{\text{Loan}}$ Business

Business $\xrightarrow[\text{Debt}]{\text{issues stock or}}$ individuals

Deficit bus. unit — surplus bus. unit

Gov. $\xrightarrow{\text{T.B}}$ Individuals

Deficit ① financial Markets help business to rise fund

surplus ② To Provide optimal investment oppurtunity

③ Transfer funds from surplus to deficit types of financial markets:-

- Primary → financial market where first issuance are traded
  its role is to (rise fund), fundrising.
- Secondary → (Transfer of ownership). selling
  exists ~~own~~ securities.

efficient secondary market: يوجد استخدامات
ترتيب بشراء الاداة المالية التي بين يدي which leads to liquidity to financial market.

Both types Primary and Secondary are divided into according to maturity:-

money → less than 1 year → Debt instrument
ex: Commercial Peaper, T. Bills, Negotiable and non-negotiable CD's, Repurchased agreement, Banker accertance

Capital → long-term financial instrument
ex: C/s, P/s and long-term bond → Debt and Equity → mortgage loans, mortgage backed securities

* Equity instruments are Perpetual No expiration date

Different characteristics because different issuer

Commercial Peaper → firms "Higher credit rating"
T. Bills → Gov.
Banker Acceptance, CD → Bank

selling on ~~credit~~ Discount

mortgage loans (15-20 yrs)

↓

قروض رهن عقاري

↓

قروض يتم اعطائها من خلال رهن عقار

mortgage backed loans

↓

اداة مالية مرهونة بالعقار

↓

ابيع sec. لـ investor و بربط الـ int بـ الـ القرض العقاري

Financial Derivatives :

one of financial engineering.

→ It Derives the Value from Assets like : gold, Cotton and Petrol.

Soaps it derives the Value from currency.

محمد طبلصد سعيد

100,000 شيكل

يتم التسليم عند الـ mat

stock option it derives the Value from stock Price

سعر البيع Put option

slides

Types of financial Markets :-

→ organized stock market

→ Physical location

→ where brokers, Dealers investors

→ flow

→ OTC (over the Counter)

→ من وراء الشاشات "Telecommunication"

→ على الانترنت

money market :-
→ liquid
→ low return
→ low Risk

□ Derivative securities → for expeculation
→ Risk Management tool

aim :- To manage the risk

* Down side risk → حماية من نزول السعر

* Pre-determined (Date , Quantity , Price)

fair Value of financial Asset نشتري سعر ال

وليس سعر التداول . efficiency of financial market

Price for any asset = Σ P.V of all future Cash flows

$$P = [PVIFA]_{i,n} + \frac{Par}{(1+r)^n}$$

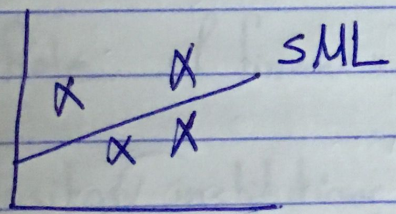
$$P = \frac{DiV}{K}$$ PerPetuity

$$P = \frac{DiV}{K-g}$$ Growing PerPetuity

using the market information will not lead to the same results because everyone use different assumptions.

we Valuate the stock using:-
→ DCF
→ DDM
→ Relative Valuation techniques

effecient financial market → سعر السهم يعكس واقع
و المعلومات المتوفرة في الشركة



upnormal return → Not available for everybody
available for ones who have information

Information Acimetry → معلومات لدى طرف وليس للآخر
"معلومات مدير وليست للمستثمرين"

mispricing of assets:
→ flexibility in accounting guidelines
→ overestimation of earnings
→ Risks Preferences

Asymmetric information:

① We can reduce this Problem through disclosure financial statement or any information that affects the investor actions

② and through financial institutions and it reduces risk through sharing the Risk

العديد من الجهات الرقابية تشترط وجود العديد من الافصاحات المالية.

17,18,19 غير مطلوب

The Role of financial institutions:

1- Depositary institutions
→ Commercial banks → accept Deposits, → Give loans
الجمعيات → credit unions → Non-Profit
→ saving and loan associatio. "saving institutions"

2- not deposit institution → "It solved market imperfection"

* Perfect market "Market efficient"

* Imperfect market

→ Pension fund, mutual fund, Insurance, finance Companies

- Pension fund → Contribution
- mutual fund → money
- Insurance → Premium
- finance Companies → Founders of loans. Debt (Bond)

تستثمر من قبل ← اموال → mutual fund → اسهم
Portfolio manager
تدار من قبل

Return mutual fund > Return

سمسار Broker → اجمع بين طرفين سواء نجحت ام لا
وسطاء
Dealer → نجحت ام لا // // //
→ market maker
يشتري السهم في حال لم تشتري

Fees في حال لم تشتري باخذ فقط

→ bid-ask-spread
الفرق بين اكبر سعر شراء واقل سعر بيع

اكبر سعر شراء Max. buying Price

→ اقل سعر ~~~~ بيع