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The Role of Financial Markets in the Mobilization and Distribution of Financial Resources

One of the United Nations' eight Millennium Development Goals is to create an environment at the global level that would promote economic development and eradicate poverty. Undoubtedly, success in meeting this objective depends on effective governance and transparency of the financial, monetary, and trading systems within each country. Financial markets promote an efficient transfer of financial resources, regulate transaction costs, and facilitate credit creation for businesses. Fiscal policies concerning public expenditure, tax changes, and bonds trade significantly contribute to enhancing sale mechanism, organizing the flow of funds, and promoting domestic and foreign investment. Thus, financial markets play a significant role in the mobilization and distribution of financial resources at the international level because they ensure the equitable development of the private and state-owned sectors, control market prices, introduce new economic policies, and secure the necessary financial resources for investment.

Financial markets help to mobilize the funds of investors and distribute their savings among businesses and industries that need financial support. In successful economies, the monetary resources of investors should never remain idle but work for the financial and economic development of nations. Financial markets serve as important platforms for investors to be linked with specific industries that require investment (Gasimova 35). In such a way, financial markets enable this transaction between investors and national industries, where subjects can invest their money in industries according to their choices. Since financial markets do not allow investors' savings to stand idle, they significantly facilitate the transfer of financial resources from investors to developing industries and sectors.

Also, financial markets are highly important engines for sustainable economic growth since its monetary and fiscal incentives encourage privately owned businesses to increase their shares and raise capital from world stock exchanges. Taking into account the key sources of financial resource mobilization such as foreign direct investment, external borrowing, and external trade, financial markets perform their essential role of allocating financial resources from within and outside the economy (Gasimova 41). Hence, financial markets promote the exchanges' activities among different sectors of the economy and motivate all players to enter the market, thereby making the financial playground more transparent and viable.

Price determination is one of the most important functions of financial markets that enhances the mobilization and distribution of financial resources. In particular, financial markets ensure that companies follow the rules of demand and supply when setting their prices on trading commodities. This rule guarantees that both privately owned businesses and state agencies will not raise their prices on goods and services to levels that pose significant economic harm to consumers. Moreover, controlling the interaction of buyers and sellers, financial markets provide a sign for the allocation of financial resources into the economy based on demand (Qamruzzaman and Wei 5). Since new industries in a country demand additional funds from suppliers, including investors and households, financial markets strengthen the interaction between the two and help to set prices based on market factors.

Financial markets allow traders to raise fresh money and increase their financial assets in the market through equity. The main reason for this function is that the instruments that the stakeholders trade in financial markets have a high rate of liquidity, implying that their financial commodities can be converted into cash quickly (Qamruzzaman and Wei 7). Undeniably, such an opportunity is beneficial for investors who are not interested in a long-term investment but want to find a channel through which their savings can flow and work for their enrichment. The free flow of investment into developing industries stimulates the capital formation of a country and enhances the marketability and liquidity of financial assets.

Moreover, financial markets sustain a higher economic growth rate by raising capital from foreign investors and encouraging them to keep the balance between investing in the state-owned and private sectors. According to Yamada, macro-economic and fiscal policies, which determine the relations between buyers and sellers in the financial market, grant the fair organization of tax and non-tax revenues and responsible public spending (65). In such a manner, financial markets protect financial resources such as taxes, property income, and public assets, thereby ensuring the equitable distribution of revenue among all stakeholders. At the national and international levels, fiscal policies that are applied in financial markets help to avoid serious resource mobilization problems and facilitate the efforts of economies to restore financial equilibrium.

As a result, financial markets determine the distribution of income among lenders while allowing them to earn interest on their surplus funds. Fiscal regulations and policies in financial markets ensure the productive use of funds and fair income distribution among private and state-owned sectors, as well as different industries based on demand. A well-developed, competitive financial system is essential for mobilizing savings and distributing income effectively. Financial markets not only promote the savings of investors but also help small and medium-sized enterprises to receive credit and survive during a debt crisis. Financial markets set standards for capitalization, investment, regulation, and corporate governance that facilitate the economic development process, protect the interests of economies, and ensure an open access to foreign markets.

Works Cited

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