

Financial Markets

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Most people struggle with associating financial markets in the continuum of the finance world, whereas, in reality, the financial market stands out as the type of marketplace where the trading of securities such as bonds, derivatives, currencies, and equities occurs in various forms and frameworks. In some sense, financial markets are tools for raising money and growing business via a series of financial transactions and trading facilities. Considering the broader subject of financial markets, it would be reasonable to dedicate attention to the diversification of the types of financial markets. Since the primary objective of all financial markets is the maximization of capital by either issuing bonds or shares, one may find it worthy of providing a brief characteristic of the types of financial markets. Having identified the primary objective for most financial markets coupled with the necessity to review various types of their work, one may suggest examining the over-the-counter, bond-related, money, derivatives, and forex markets and hence discuss discrepancies in their operational capacity, trading specifications, and overall determination.

First of all, while examining over-the-counter financial markets, the conventional ones with a specialized focus on the stock exchange stand out. The crucial point is that while the conventional stock exchange are tightly regulated and of an enormous scale, the over-the-counter alternatives are designed for smaller companies and small-scale players on the market (Dodd, 2018). In the domain of financial markets, the over-the-counter ones are often characterized as secondary marketplaces, where public stocks are absent in substantial public stock enterprises—namely NASDAQ or New York Stock Exchange. Moreover, over-the-counter financial markets have no physical location, whereas most operations and transactions take place electronically.

The currencies, stocks, and commodities are traded exclusively between two parties, which makes these small-scale transactions appealing to individual traders in financial markets.

In turn, the earlier identified bond-related markets may be best defined as financial markets for bonds with narrow specialization in the security of bonds, which in turn specialize in the funding of long-term public and private expenditures. The crucial point in the context of the bond markets is the interest of investors willing to loan money for a definite period under the scope of pre-established rates of interest. With regards to the specifications of bond markets, one may underline the active engagement of the government in the structure of existing markets—meaning that the government bond markets play a considerable role because of their size and liquidity capabilities (Amadeo, 2019). Even though the bond markets may be falsely perceived beyond the operations with broker-dealers, the earlier mentioned over-the-counter markets serve the role of a secondary marketplace in the broader organization of the bond-related system.

Notwithstanding, the role of the money market is often misused or falsely interpreted, eventually leading to uncertainties over their role in the structure of financial markets. From a broader perspective, the money markets are coupled with the capital market in a more comprehensive system of financial markets. The primary role of the money markets is the provision of trading facilities for both the highly liquid and short-term maturities. One of the most noticeable features of the money markets is their predisposition for short-term borrowing, intending to simultaneously lend the securities with less than a year of maturity. Consequently, the overall transaction capacity in aggregate with a diverse range of the certificates, acceptances, bills, notes, and commercial papers makes the money markets a relevant financial market for individual, corporate, or government entities (Dodd, 2018). As a result, the active participation in

the money markets allows these entities to maintain the appropriate rate of liquidity, at the same time, being safe instruments for investors.

The derivatives market is commonly characterized as a type of financial marketplace, which puts a strong emphasis on derivatives as a central asset. More precisely, the derivatives market's trades securities, which are commonly derived from the underlying asset. Therefore, it becomes apparent that the value of a derivative contract may be determined by the conventional market price of the underlying item. Considering the sub-types of the mentioned securities, the futures, options, swaps, and contracts form the core of the derivatives market, which is different from those of the stock market (Amadeo, 2019). Even though the specifications of the derivative market may be perceived somewhat abstractly, it should be noted that the individual stocks in the financial studies are acknowledged to be a part of the derivatives market. With regards to such a division, the stocks of Apple, currency markets, and stock indexes are the dominant features of the derivatives financial markets.

Lastly, having mentioned forex markets, one may suggest that their central focus is the exchange of currency. The trade of currency may take various forms, alongside varying in terms of the amount of currency-related transactions. This particular financial market is acknowledged as being one of the most liquid because cash forms the most liquidity of assets (Dodd, 2018). With regards to forex markets, it should be pointed out that it is often considered to be a part of the more sophisticated over-the-counter marketplace, which in turn determines the situation with the currency within the secondary markets.

Having scrutinized the data regarding the types of financial markets and the unique feature in each of the underlined categories, one may also indicate that financial markets succeed

in accomplishing the liquidity for financial operations. Considering the colossal amount of transactions and dozens of players in each type of the market, it becomes apparent that the overall impact of financial markets is immeasurable. More importantly, under the scope of globalization tendencies and the formation of the worldwide financial system, financial markets are also used to cover the risks related to assets. Since most of the mentioned notions describe financial markets from preferably a beneficial side, one may indicate that most of them present a minor challenge pertaining to the measurement under the scope of macroeconomic indicators. With regards to the domain of macroeconomics, the role of taxation seems to undermine the mere probability for financial markets to represent the high accuracy of stock. Other than that, financial markets are vulnerable to the aspect of information, especially considering the sub-element of transparency (Catalini, 2017). Under no circumstances would financial markets be useful if the principle of transparency would be violated, meaning that the compliance with strict fiscal rules is a must for those who are willing to become actively engaged in the trading facilities within financial markets. The last thing to mention is that the modern digitalized world is constantly developing, eventually resulting in the emergence of new assets and financial markets—namely blockchain technology. A real boom took place over the last decade because of the noticeable fluctuations in prices of the e-currency; however, the most important innovations were relevant to the blockchain itself, which is explained by its capability to move far beyond financial assets (Catalini, 2017). The prolonged debates regarding the classification of digital currency have resulted in uncertainties in legal systems across the globe, meaning that the regulation of blockchain is actively imposed to ensure the stability of the existing status-quo in financial markets. The uncertainty regarding the control of blockchain technology has been

coupled with the active lobbying against the implementation of the innovation due to the apparent threat to financial markets per se.

To conclude, financial markets in their current form are reliable tools for trading assets, meaning that the unveiled types of financial markets are crucial marketplaces for the maintenance of asset liquidity. Having reviewed each separate type of financial market, one could illustrate the interrelated essence of their financial operations and transactions. With regards to the widespread use of financial markets as instruments for maintaining the security and reliability of financial relations, transparency serves to be the crucial determinant for the stability of the system. The recent development of blockchain technology resulted in the lengthy debate regarding its regulation, especially considering its potentially adverse impact on financial markets. Notwithstanding, financial markets are the frameworks for numerous entities, which should not be neglected in terms of capital formation and the maintenance of liquidity.

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