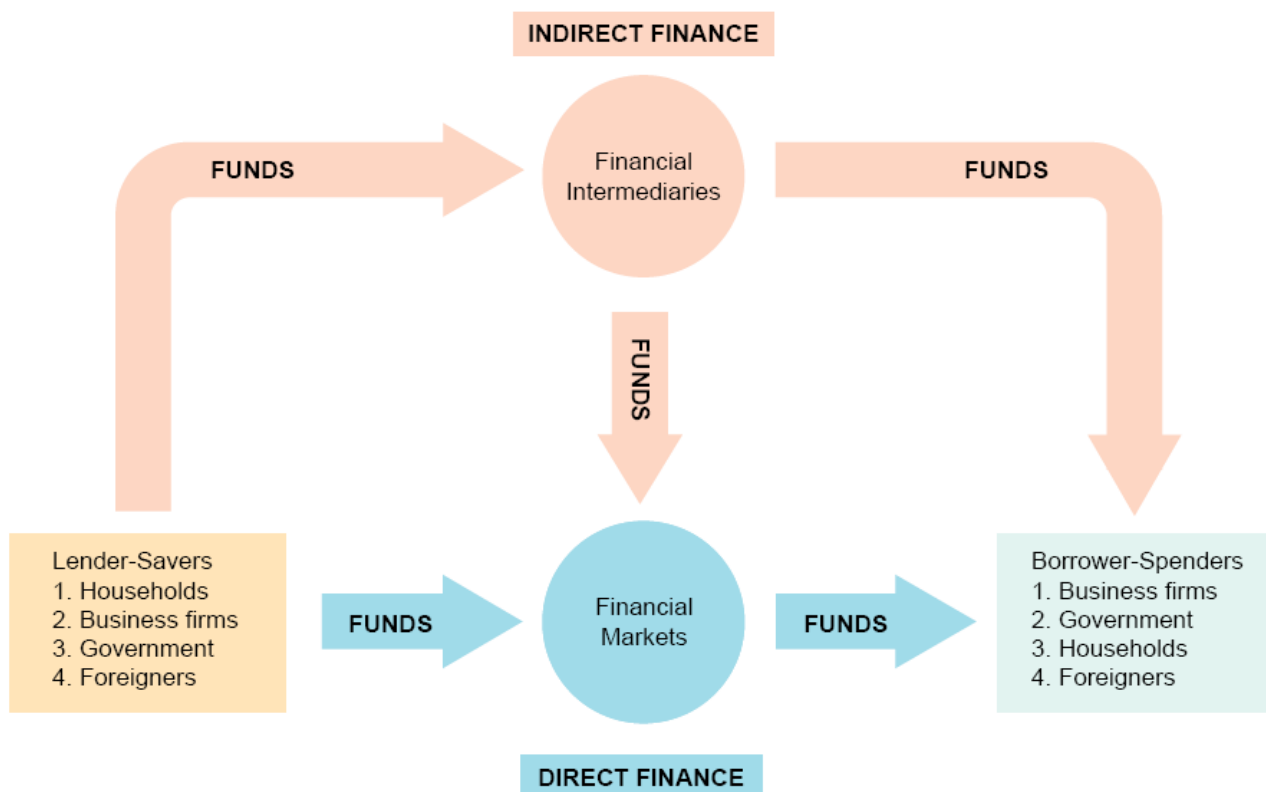


Principles of Finance

Topic 1. Financial Markets and Instruments

Financial markets – markets in which funds are transferred from those who have an excess of available funds to those who have a shortage.

Direct and indirect financing



Examples:

- Bond market
- Stock market
- Foreign exchange market
- Derivatives market

Structure of financial markets

- Debt and equity markets
- Primary and secondary markets
- Exchanges and Over-the-counter markets
- Money and capital markets (ST vs LT)

Money market instruments

- Treasury bills (T-bills)
- Certificates of deposit
- Short-term bonds
- Repurchase agreements
- Federal funds
- Bills, notes
- Eurocurrencies (e.g. Eurodollars)

Capital market instruments

- Stocks (common vs preferred, convertible)
- Mortgages
- Long-term bonds (corporate (debentures), government, municipal)
- Bank loans
- Eurobonds

Stock market indices

Derivatives

Derivatives - any financial instrument whose payoff is derived from another asset's.

- **Forwards** (underlying assets: stocks, bonds, indices, currencies, commodities, interest rates, etc.)
- **Futures**
- **Swaps** (underlying assets: interest rates, currencies)
- **Options**
 - Put, call
 - European, American
 - Underlying assets: stocks, bonds, indices, currencies, commodities, interest rates, futures
- **Embedded options (convertible bonds, callable bonds)**
- **Exotic options**
- **Swaptions**
- **Structured notes**
- **Asset-backed securities (ABS)**
- **Mortgage-backed securities (MBS)**