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Influence of Financial Markets on the U.S. Economy

Name:

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**Financial
Markets**



Overview

- ▶ Financial markets allow individuals to transact financial instrument.
- ▶ Types of Financial markets:
 - Bonds.
 - Stocks.
 - Foreign exchange
 - derivatives



Specialization in the Bonds Market

- ▶ Bond market brings to the customers debt securities.
- ▶ Debt securities are broadly classified as corporate or government backed
- ▶ The instrument provides an alternative of accessing expansion funds for the companies.
- ▶ Through bonds government can finance development or settle debt.



Specialization in the Derivative and Foreign Exchange Market

- ▶ The derivative markets specializes in underlying assets and financial derivatives.
- ▶ Foreign exchange market specializes in currency exchange.



Specialization of the Stock Markets

- ▶ Stock market facilitates issuing, buying and selling of stocks.
- ▶ Represents fractional ownership in a company.
- ▶ Investors buy and sell ownership of such invisible assets.
- ▶ Stock market specializes in provision of stocks which provides capital and investment income.



Influence of Bonds to both the U.S. and Global Economies

- ▶ These class of bonds include:
 - ❖ Corporate bonds.
 - ❖ Municipal bonds
 - ❖ Treasury bonds.
- ▶ They provide some form of liquidity to keep the economy functioning smoothly.
- ▶ When Treasury bond value declines, the yields increase in order to compensate.
- ▶ When the value of the Treasury bonds declines, so does the value of the dollar.
- ▶ Prices of import rises triggering inflation.



Influence of Stocks in the U.S. and Global Economies

- ▶ Provides platform for companies to raise large amount of cash to expand.
- ▶ Stocks are sold to investors via broker-dealers.
- ▶ The investors earn profit when the organization increases its earnings.
- ▶ Increased earnings by the organizations helps the US economy as well as the global economy to grow.



Influence of Derivatives Market to the U.S. and Global Economies

- ▶ Hedge funds helps in decreasing the volatility of the stock market.
- ▶ Helps in decreasing the volatility of the US economy as well as the global economy.
- ▶ Derivatives are used by the banks.
- ▶ They help in hedging risks stemming from the movements of the interest rates as well as currency values.
- ▶ Influences the availability of credit by banks.



Influence of the Foreign Exchange on both U.S. and Global Economies

- ▶ Foreign exchange markets are decentralized global market where currencies are sold and bought.
- ▶ Low exchange rates promotes domestic and international trade.
- ▶ Low exchange rate ensures goods or services are affordable.
- ▶ High exchange rates harms both domestic and international trade.



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