

Answer questions

[Literature](#), [Russian Literature](#)



Economics Questions ECONOMICS QUESTIONS 3. Compare and contrast direct finance and indirect finance. Which is more likely to have a larger share of the total financial market in a mature economy? In a young economy? Why? Direct finance is a fundraising vehicle that is utilized by borrowers who bypass financial intermediaries in their quest to acquire funds. On the other hand, indirect finance is a case where borrowers choose to use financial intermediaries (FI) to access funds. For instance, financial intermediaries such as banks, are money lenders who charge interests on the amount borrowed. In a mature economy, indirect finance is more likely to have a large share of the total financial market. In contrast, direct finance is more likely to have a foothold in a young economy. The contrasting observation exists because indirect finance is more expensive compared to direct finance, as it involves the payment of high-interest rates charged by the FI. Therefore, organizations and companies operating in a young economy might not be in a position to sustain the interest rates charged when accessing indirect finance.

5. What is the relationship between the efficiency of a financial system and the rate of economic growth? The efficiency of a financial system is directly proportional to the rate of economic growth. An efficient financial system means that there is a robust savings culture, easy access to funds for borrowers and lower lending risks on the financial intermediaries (FIs) part. As such, the FIs can offer timely, creative, and innovative financial services. The availability of financial services for investors, organizations, and corporations means that there will be an observable growth rate of the economy. However, an inefficient financial system ultimately means that there would be a shortage of financial

products and services. A drastic shortage of financial products and services means that organizations will not access enough funds for investments and expansion. Ultimately, the inefficient financial system will negatively affect the rate of economic growth.

7. Describe the major types of risks to financial securities, and give a specific example of each. How do investors measure risk? Financial securities face two significant risks: unsystematic and systematic. The contrasting difference between the two major types of risks is that systematic risks are beyond the control of organizations while the unsystematic risks are within the control mechanisms of organizations. An example of systematic risks is the inflationary risk. This risk has its origins from the fact that inflation erodes the purchasing power. On the other hand, an example of unsystematic risks is the liquidity risks. This risk emanates from the inability of an organization to access sufficient funds. There are numerous ways investors can use to measure risk (Horcher, 2013). For instance, investors use instruments such as standard deviation, draw down and beta ratios. The standard deviation is regarded as a primary risk measurement tool. It is a measurement of how an investment will fluctuate from the mean return.

9. What is liquidity, and why do investors care about it? Liquidity is the availability of funds that enables investors and organizations to pay for their bills and carry out investments with cash or from some assets, which can be turned into cash easily. Investors care about liquidity because it provides a fast and easy channel of obtaining funds or having cash at hand that enables them to respond swiftly to available and rising investment opportunities. In addition, investors who care about liquidity have peace of mind knowing that they can respond to unforeseen

circumstances, which occasionally arise in the line of investments.

References Horcher, A. K. (2013). *Essentials of Financial Risk Management*.

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