The definition of financial terminology within the market

Did you know what the financial institution is? The definition of financial institution is an organization that invests the chiefly in financial assets such as securities and loans rather than in tangible property. In the financial institutions, there have include many parts, such as banks, consumer finance companies, trust companies, savings and loans, insurance companies, credit unions, pension funds, and the mutual funds.

What is the financial market? Financial markets is a market which for the exchange of the capital and credit, it including the money markets and the capital markets. In business, government and individuals often need to raise the funds. Income individuals and companies are now spending more than they, so they have funds available to invest. Individuals and organizations gathered to borrow money and those who have surplus. The financial market can be divided into two groups, that is money market and capital market. Money market is a creation and suppliers of short term funding requirements and the financial relationship. The maturity is within one year. The capital market is a market, so that suppliers and demanders to trade long-term capital. The investors encounter high risks in those securities are including liquidity risk, default risk, maturity risk and inflation risk. These two financial markets also can divide into primary market and secondary market.

Next, I want to Identify and discuss the three different ways for transferring capital or fund from savers to borrowers in the financial market. The first ways is direct transfers of money and securities. This will occur when a business sells the bond and stocks directly to the savers without going to through any types of the financial institution. It is the business that delivers its securities to the savers, and who in turn give the firm the money it needs. The second ways is the investment banking house. The investment banking house is an organization that can distributes or underwrites the new investment securities and also help business obtain financing. For an example, the person name Merrill Lynch is underwrites the issue. The underwriter is serves as a middleman. It also facilitates the issuance of the securities. The company who sells the stocks or bonds to the investment bank, the major reason is they want to sells these same securities to the savers. The last ways for transferring capital or fund from savers to borrowers in the financial market is financial intermediaries. The financial intermediaries is the specialized financial firms that facilities the transfer of funds from the savers to demander of capital. The financial intermediary is such like a bank or mutual fund. It is simply to transfer the money and securities between the firms and the savers. They literally want to create the new financial products. Here, the intermediary obtains funds is from the savers in exchange is for its own securities. Then, the intermediary will use this money to buy and also hold the business' securities. In addition, the existence of intermediaries are greatly to increases the efficiency of money and capital markets.

In the financial intermediaries also have many functions. The first functions of the financial intermediaries are to reduce the transaction cost. A transaction cost is a cost that incurred in making in an economic exchange. Usually this is restated of the cost of the participating in a market. For an example, if you are a businessman, you want to open a fruits stall. Let's say you want to sell watermelon. You consider buying the watermelons from a store. To purchase the watermelons, your costs are not only paying for the price of the watermelons itself. Why? Because you need to use your energy and effort it requires to find out what types of the watermelons that you prefer, the cost of travelling from that store to your house, where can you get the stock of watermelons, can get the watermelons at what price, the effort of the paying itself and also the time when you waiting in line. These all costs are really above and beyond the cost of the watermelons are the transaction costs. The second functions of the financial intermediaries are the facilities such as saving deposits, online banking to pay the bills, online checking your saving account, money transfer and others that can be liquidity. These all are provided generally by credit unions, banks, and the finance companies. The next function of the financial intermediaries are risk sharing. While, the risk sharing is a risk management method in which the cost of the consequences of a risk is distributed among with the several of the participants in an enterprise.

Next, I want to explain about the classes of intermediaries. There have seven classes of the intermediaries. The first classes are commercial banks. Commercial banks is the traditional ' finance department store' into a wide variety of savers and borrowers. Expanding the services provided, including stock brokerage services and insurance coverage. Commercial banks are quite different from the investment banks. Commercial banks can lend money, while an investment bank is help companies to raise the capital from other parties. The second classes are savings and loan associations. This is the served individual savers and residential and commercial mortgage borrowers. It takes the fund of many small savers and then will lend this money to the home buyers and other type of borrowers. In the analysis of credit, it is setting up a loan, so that the collections of personal savings are more than expertise, so they reduce the costs and improve the availability of real estate loans. The third classes are mutual savings banks. This is similar with S&Ls, operate the primarily in the northeastern states, and accept the savings primarily from individuals. It also lend the mainly on a long-term basis to the home buyers or consumers. The next classes are credit union. Credit unions are the members of the association of their cooperation should have a common bond. The members' savings are loaned only to other members, usually is for the home improvement loans, auto purchases etc. It's often the cheapest source of the funds available to the individual borrowers. Other classes are the pension funds. It means the retirement plans are funded by corporations or government agencies for their workers and the administered primarily by the trust departments of commercial banks or by life insurance companies. There have two plans of the pension funds, defined benefit plans and defined contribution plans. Another class is the life insurance companies. That is the participate in the annual premium in the form of savings, real estate, bonds, mortgage loans, investment in stocks, ultimately these funds to the insured's payment to the beneficiary parties. The last classes are mutual funds. The mutual funds are the corporations that accept money from the savers and then they use these funds to buy the stocks, long-term bonds, or short-term debt instruments issued by business or government units. The pools funds and thus reduce the risks by diversification. The different funds of different types of savings designed to meet those goals. There are literally thousands of different mutual funds with dozens of different goals and purposes.

In this assignment, I had already explain the definition of financial market, the three different ways for transferring capital or fund from savers to borrowers and also the classes of intermediaries. I know that the financial institutions are very important not just for a businessman, also for everyone.