Essay on definitions and roles of financial concepts

Business, Marketing

- Finance

Finance is that administrative area or set of administrative functions in a firm that focuses on the cash flow management in order to achieve its objective in a timely manner. Finance plays a significant role in the economic development process by creating new jobs and economic activity within a defined area.

- Efficient market

It is widely used in the capital market where it refers to spreading security risk and efficiently guiding the allocation of capital within and between economies. It means that security prices fully reflect all available information. It provides an organization of various method leading to an efficient distribution of financial resources in the economy (Hall, 2008).

- Primary market

These are markets in which newly issued financial assets are sold for the first time. The buyer is free to sell it to someone else. The primary markets help the firms to obtain funding for its investment projects

- Secondary market

This is the market in which previously issued financial assets are sold. The trading that takes place in financial markets on a certain day is a secondary market trading. It helps in bond trading where previously issued bonds are exchanged.

- Risk

It measures the uncertainty in the financial market. It is used to evaluate investment projects in that the higher the risk the higher the expected returns. Thus, the risks are used to take care of uncertainty losses that an organization may get into investing in some projects.

- Security

It is an instrument used to show ownership and can be easily be traded in the secondary market. It allows an individual to own property without taking custody. It helps to form a significant success of the financial markets because they are easily traded.

- Stock

It is a security instrument issued by an organization that shows the possession right in the property of the organization and the method to be used to share the profits after payment of organization obligations. The stock is divided into preferred and common stock both of which serve individuals as financial security’

- Bond

It is an obligation security where the debtor owes the creditor a debt and based on conditions of the bond he or she is supposed to pay an interest within the agreed time. The bond helps the borrower with extra funds to manage his or her long term investments.

- Capital

It is the amount of money obtained by subtracting liabilities from the assets. It is used to finance the business operations. It is also used to start or finance existing business.

- Debt

It is an obligation to repay an amount that individual owe the creditor. It plays a significant role in finance in that, the organization may rely on debt to finance its operations in a long-term or short term.

- Yield

It is an annual income obtained from investment and it is calculated as a proportion of the investment. It is an annual rate of return of investment. The organization can use yields to finance its operations and pay off its debt.

- Rate of return

It is the percent return obtained from discounting the value of the investment. It is used to evaluate the value of investment project.

- Return on investment

It shows the amount that the company earns as a proportional net value of the investment. It is the benefits received from an investment compared with the cost. The company uses the ROI to demonstrate its profitability.

- Cash flow

It measures the changes in a company’s cash account during an accounting period. It reflects the total amount of inflows and outflows that are used to measure the company’s operating performance. It determines the true value of cash available for immediate use in the organization.

References

Hall, R. E. (2008). Economics: Principles And Applications. Cincinnati: South-Western.