**An Intro to Financial Markets**

**Financial Markets**

**Before we start looking at financial markets undertake some background reading and research. Useful sources of information can be found in your textbook, Economics Sixth Edition by Alain Anderton, the tutor2u website and on the Bank of England website.**

What is the purpose of a financial market?

Outline the difference between the following

The money market

The capital market

The foreign exchange market

What is the difference between a commercial and an investment bank?

What other institutions operate in financial markets?

What is the difference between debt and equity?

What is the role of the central bank?

How is the financial system in the UK regulated?

|  |  |  |
| --- | --- | --- |
| **Bank of England** | |  |
| **Financial Policy Committee** | **Prudential Regulation Authority** | **Financial Conduct Authority** |

**Define:**

**Macroprudential Regulation**

**Microprudential Regulation**

**Indicate who has responsibility for the above**

**Key Terms Monetary Policy and Financial Markets**

Annotate the diagram below with key points about each of the financial markets to give you a one page summary of financial markets

|  |  |
| --- | --- |
| **Term** | **Definition** |
| **Medium of exchange** |  |
| **Store of value** |  |
| **Deferred payment** |  |
| **Narrow money** |  |
| **Broad money** |  |
| **Bank base rate** |  |
| **Financial market** |  |
| **Money markets** |  |
| **Capital markets** |  |
| **Foreign exchange markets** |  |
| **Debt** |  |
| **Equity** |  |
| **Government bond** |  |
| **Liquidity** |  |
| **Commercial bank** |  |
| **Investment bank** |  |
| **Retail bank** |  |
| **Central bank** |  |
| **Monetary policy** |  |
| **Bank base rate (include current rate and length of time at this rate)** |  |
| **Quantitative Easing** |  |
| **Moral Hazard** |  |
| **Systemic risk** |  |
| **Bonds** |  |
| **Shares** |  |
| **Corporate bonds** |  |
| **Government bonds** |  |
| **Coupon** |  |
| **Credit** |  |
| **Assets** |  |
| **Liabilities** |  |
| **Security** |  |
| **Monetary policy instruments** |  |
| **Transmission mechanism of interest rate policy** |  |
| **Forward guidance** |  |
| **Funding for Lending Scheme** |  |
| **Financial policy committee** |  |
| **Prudential Regulation Authority** |  |
| **Financial Conduct Authority** |  |
| **Liquidity ratio** |  |
| **Capital ratio** |  |