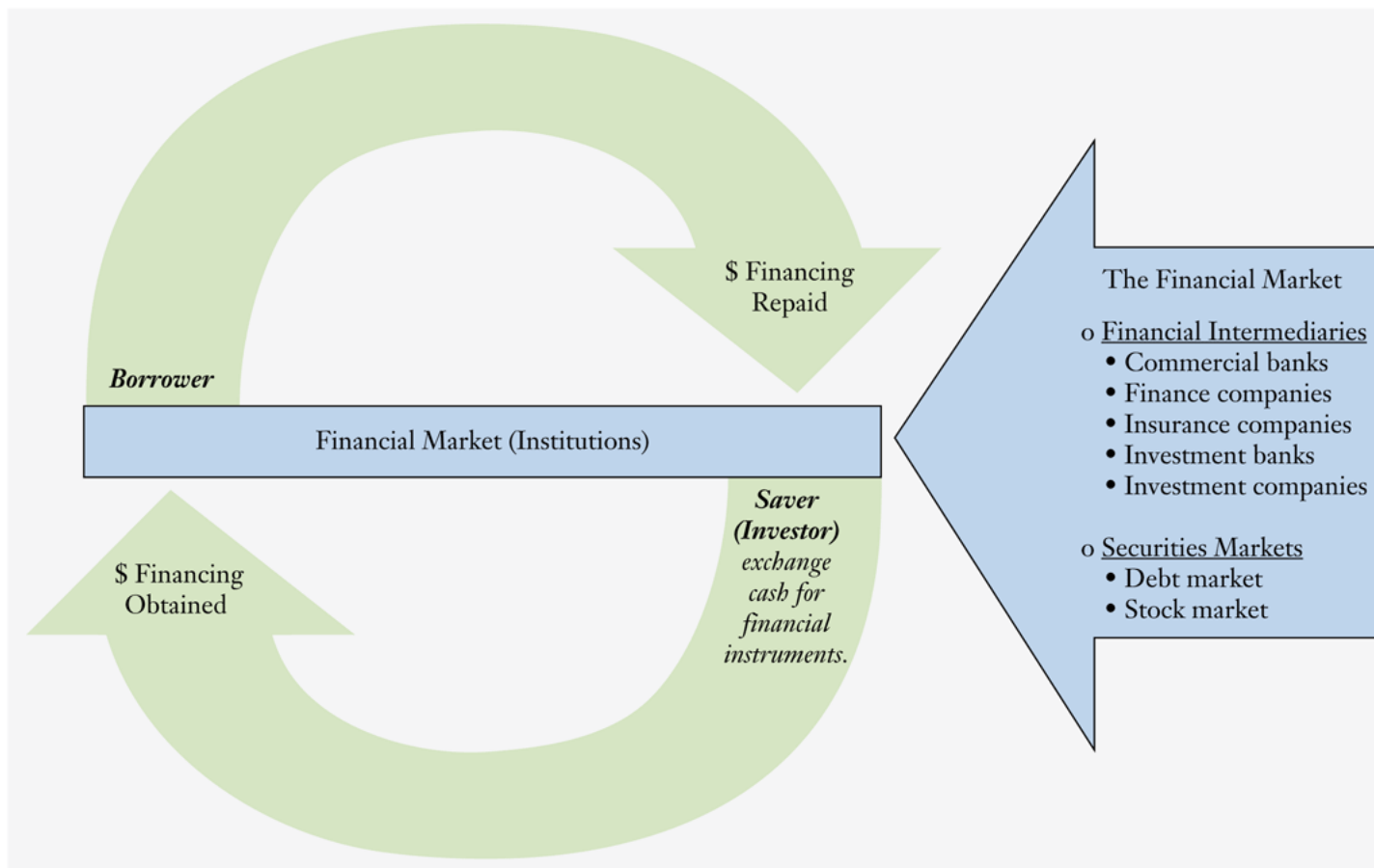


Figure 2.1

Financial Markets, Institutions, and the Circle of Money

Financial markets consist of institutions that facilitate the transfer of savings from individuals and firms with excess cash to borrowers who have less cash than they need.

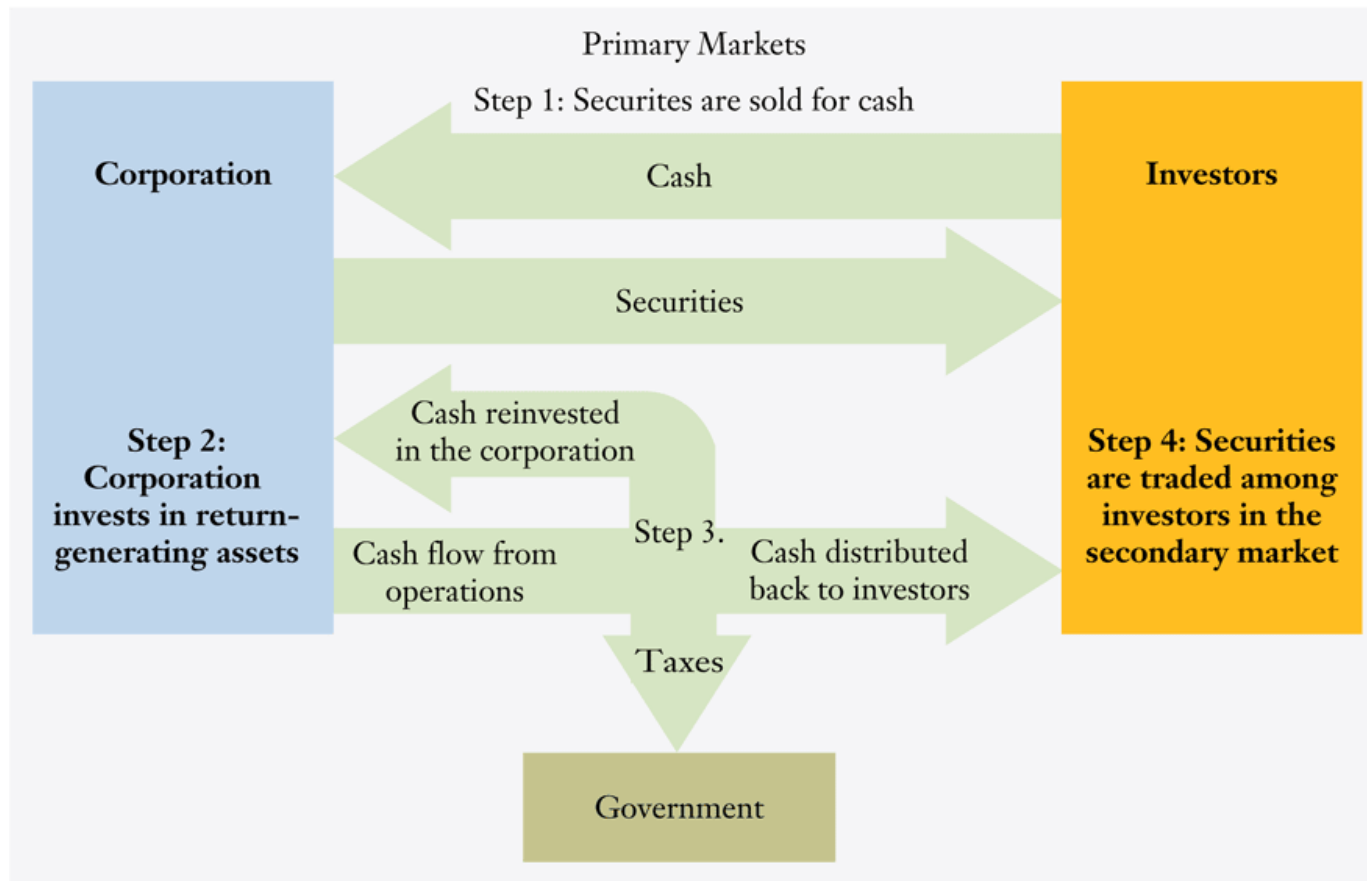


Investment Companies: mutual funds/exchanged traded fund, hedge funds, and private equity firms (VC/LBO)

Figure 2.2

Security Markets Provide a Link between the Corporation and Investors

Step 1: Initially, the corporation raises funds in the financial markets by selling securities (a primary market transaction); Step 2: The corporation then invests this cash in return-generating assets—new projects; Step 3: The cash flow from those assets is either reinvested in the corporation, given back to the investors, or paid to the government in the form of taxes; and Step 4: Immediately after the securities have been issued they are traded among investors in the secondary market, thereby setting their market price.



Money Markets – T-bills and commercial paper
Capital Markets – stocks and bonds