
Introduction to Financial and Capital Markets

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Introduction

The financial system does three things:

- it intermediates between savings and borrowing;
 - it provides a way to pool, transfer and diversify risk;
 - it runs the payment system
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Questions

1. Give three reasons why households may save
2. Supply three reasons why households want to borrow
3. Why are firms unable to save?
4. What are the two broad categories of borrowing that are done by firms? Give an example of each.

Looking at the depiction of the financial system in Figure [1](#),

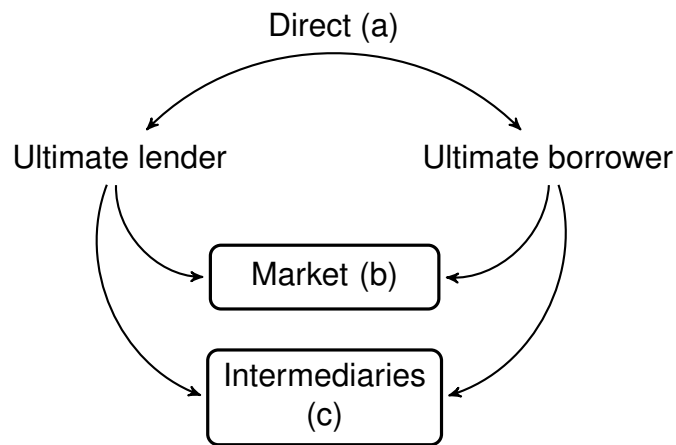


Figure 1: Elements of the financial system

1. Give an example of an *intermediary*. Why is this superior to *direct lending*?
2. Look at one financial market and explain how it puts household savings at the disposal of firms.