

Financialization (I): Financial markets & businesses

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Prof. Santetti

marcio.santetti@emerson.edu

Debt (in general)

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The *logic* of debt, again

Why financial markets exist

Why financial markets exist

- Remember the *definition* of *markets*?
- Housing
- Credit card purchases
- Vehicles
- Business expansion

Why financial markets exist

Financial markets *bridge a gap*

How businesses raise financial capital

How businesses raise financial capital

A common *business problem*:

- Spending money in the *present* and expecting to earn profits in the *future*.

How businesses raise financial capital

- How?

[1] *Early-stage* investors;

[2] Reinvesting *profits*;

[3] Borrowing through *banks*;

[4] Selling *stock*.

How businesses raise financial capital

- How?

How businesses raise financial capital

- How?

[1] *Early-stage* investors

- An idea
- A prototype
- Few/no customers
- Venture capital
- Where does the money come from?

How businesses raise financial capital

- How?

[1] *Early-stage* investors

VC-Backed Founder Pitches Shark Tank And Wins Big. Is This A Trend? (Forbes)

How businesses raise financial capital

- How?

[2] Reinvesting *profits*

6 Companies That Invest in Themselves (Kiplinger)

How businesses raise financial capital

- How?

[3] Borrowing through *banks*

- Consequences?

How businesses raise financial capital

- How?

[3] Borrowing through *banks*

What legal actions can creditors take if you don't pay your credit card debt?
(CBS News)

How businesses raise financial capital

- How?

[4] Selling *stock*

- Stock \Rightarrow *ownership*
- Divided into *shares*

How businesses raise financial capital

With ↑ *shareholders*, two questions:

1. *How and when* does the company *obtain money* from its sale of stock?
2. What *rate of return* does the company *promise to pay* when it sells stock?

Next time: Households & financial
markets