

Financial Markets & Instruments

Introduction

Financial Instruments are as follows:

bonds, stocks, financial derivatives (Forwards, Futures, Swaps and Options)

Types of Financial Markets

We have two types of financial markets in most parts of the world:

- Exchange Traded Markets
- Over-The-Counter Markets

Differences Between Exchange Traded and OTC Markets

1. Exchange Traded Market involves standardized contracts defined by the exchange, while OTC trades occur over phone and networks.
2. Traditionally, exchange traders were present physically, but now trade electronically. OTC involves trades between large institutions, often directly with clients.
3. Exchange markets are open to retail investors; OTC is typically limited to institutions and their clients.
4. Exchange markets are more regulated for retail protection. OTC is flexible in contract terms.

Securities & Contracts

Two broad categories:

- Basic Securities: Risk-free (Fixed Incomes - Bonds) and Risky (Equities - Stocks)

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- Derivatives & Contracts: Forwards, Futures, Swaps, Options

Note

All financial instruments in detail will be discussed in upcoming posts.