Financial markets

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Objectives:
- Demand and supply principle for various financial products
- Classification of financial markets
- Market mechanisms
- Types of financial risks
- Financial innovation

Introduction:
Nobel prize for economics winner (2014) Professor Jean Tirole acknowledges that banking is difficult to regulate and academics and academics need to do more work on it.

Regulators and international institutions:
- Helps us to
  - Avoid financial crises
  - Resolve them in an orderly manner
  - Economise on taxpayer's money
  - Limit output volatility
  - Prevent contagion
  - Promote long term growth and structural reforms
  - etc

Financial markets:
- Determined by demand and supply

The credit crisis 2007:
- Led to the 2008 financial crisis
- In 2007, the housing price experienced a steep jump, where they moved too far away from their fundamental value, forming a bubble. (graph- slide 6)
- It started because banks decided to relax their lending standards, which increased demand. This caused prices to soar. (subprime mortgages)
- Mortgages were packaged into financial products. So the mortgages themselves became the asset
- This rise in real estate prices was caused by the low lending standards and very low interest rates