• Usually in the form of bonds.
• Government bond markets are very important due to their size and liquidity.

Equity Market
• New issues of shares are initial public offering (IPO).
• Investment banking firm typically acts as the underwriter.

Financial Markets Overview

Main Functions of the RBA
• The functions performed by the RBA include:
  • Developing and implementing monetary policy.
  • Issuing currency.
  • Providing banking services for the government.
  • Overseeing the operations of the financial system.
  • Facilitating the payments system.
    • Essential to support the day-to-day business of an economy.

Summary
• Circular flow of income showed the key role of financial institutions interconnecting the five sectors.
• Key aspect of the financial system is to gather money from SSUs and lend it to DSUs in an efficient manner.
• Direct finance operates in the wholesale market where DSUs and SSUs trade financial claims among themselves.
• Indirect finance operates in the retail market, where financial institutions provide transactions between DSUs and SSUs.

Summary
• Financial claims are initially sold on primary markets and then traded in secondary markets.
• Financial markets are created to satisfy particular preferences of market participants.
• The central bank oversees the operations of the financial system and facilitates the payments system.