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