6.9: Key Takeaways

Key Takeaways

One of the fundamental components of a strong economy is a strong financial system. The financial system serves to bring together those that need to raise capital (demanders of capital) with those that have excess capital they would like to invest (suppliers of capital) in an efficient manner through either the financial markets or financial intermediaries. We can segment securities raised through financial markets and intermediaries as money market (short-term) vs. capital market (intermediate to long-term) securities. We can also segment activities as primary market transactions (where firms and governments raise capital) vs. secondary market transactions (where securities are traded amongst investors after they've been issued). The cost of raising capital is largely a function of a real rate of return to compensate investors for forgoing current consumption, an inflation premium to allow them to keep pace with anticipated inflation over the life of the security, and an assortment of risk premiums to compensate for the risk of their investments. One of the key actors in the financial system for the United States, as both a regulator and a participant, is the Federal Reserve. The Federal Reserve supervises and regulates the banking system, sets monetary policy for the United States, clears checks, and provides research in addition to other roles.