

CHAPTER OVERVIEW

6: The Financial System and Interest Rates

Learning Objectives

After completing this chapter, students should be able to

- Diagram the financial system
- Discuss the components of the financial system and how they are connected
- Explain the role of the financial markets
- Explain the role of the financial intermediaries
- Differentiate between money and capital markets
- Differentiate between primary and secondary markets as well as explain the importance of each
- Explain the individual components that determine the rate of interest for a particular security
 - Real Rate of Interest
 - Inflation Premium
 - Default Risk Premium
 - Maturity Risk Premium
 - Liquidity Risk Premium
 - Special Characteristics Premium
- Explain the concept of a yield curve
- Explain the functions of the Federal Reserve System

[6.1: Financial System](#)

[6.2: Components of the Financial System](#)

[6.3: Key Market Distinctions](#)

[6.4: More on Financial Markets](#)

[6.5: Determinants of Interest Rates](#)

[6.6: Further Discussion of Interest Rate Determinants](#)

[6.7: The Yield Curve](#)

[6.8: The Federal Reserve System](#)

[6.9: Key Takeaways](#)

[6.10: Exercises](#)

[6.11: References and Attributions](#)

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