

## 12.6: Introduction to Financial Markets

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What you'll learn to do: describe the role financial markets play in an economy



In any given period, some households, businesses and governments earn more income than they spend. What do they do with their savings? Usually, it doesn't make sense to put savings under your mattress or bury them in your backyard. Neither of those options will help your savings grow.

Other households, businesses and governments spend more than they earn. Households borrow money for new homes and new cars. Businesses borrow money to finance new physical capital investments. Governments borrow money to finance budget deficits. Where can these households, businesses and governments find the money to finance their expenditures?

The answer to each of these questions is financial markets. Financial markets are where savers put their savings to work and borrowers find funding to borrow. In this section, we will provide an overview of financial markets to provide context for the subsequent discussion of money and the banking system.

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