

TITLE: Capital Markets

Author by :

Dr. Cecil Mbofana

Doctorate of philosophy in Accounting Faculty of business and Economics
Sciences. Atlantic International University, Pioneer Plaza, 900 Fort Street Mall,
Suite 905, Honolulu, United States of America.

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1.0 INTRODUCTION

As opposed to a money market, which is where short-term debt is bought and sold, a capital market is a financial market where long-term debt (over a year) or equity-backed securities are bought and sold (Wikibooks, 2013). The wealth of savers is channelled through capital markets to entities that can use it for long-term, profitable endeavours, like governments or businesses making long-term investments. To finance their operations and expansion plans, people, businesses, and governments trade long-term debt and equity securities in the capital markets, which are essential financial sectors. These markets provide venues for the issuance and trading of stocks, bonds, and other long-term investments. They include stock exchanges and bond markets. Capital markets serve as an essential conduit for the exchange of capital, connecting savers, investors, and those in need of funding to promote economic expansion and advancement. They have a big impact on the general well-being and effectiveness of the economy by offering chances for investment and wealth creation.

A modern economy must accommodate the capital market these days. It is a market whose need is unquestionable, with an incredibly dynamic and inventive structure that permanently adapts to the economic environment while also exerting influence over it. It creates opportunities and, to some extent, risks for all categories of participants in the economic activity, functioning as a small-scale, but highly representative, replica of the national economy (Wikibooks, 2013). Diverse conceptions are brought together under one umbrella under the capital market, which is a tribute to the circumstances surrounding its formation and development. To examine the phenomenon of capital markets, I have divided this paper into six sections. An introduction to the idea of capital markets is given in the first section, while an overview is given in the second. This paper aims to present and analyse the notion of capital markets, including all of its constituent parts. A comparison of the money and capital markets is discussed in the third section. Additionally, covered will be market types, market importance, capital market issues, and risks. This paper will conclude with a summary of its contents.

2.0 OVERVIEW OF CAPITAL MARKETS CONCEPT

The stock markets, often known as capital markets, have existed for centuries. An important turning point in the development of modern capital markets was reached by the British East India Company, which was the first business to allow the general public to purchase shares in the company. Since then, markets have experienced significant shifts over time. Over time, everything pertaining to capital markets has changed, including the structure of exchanges, the asset classes they include, and how the market operates (Wikibooks, 2013). The modifications have been implemented progressively in accordance with investors' and market participants' preferences. The Securities Regulatory bodies around the world have surveillance techniques for mitigating such acts in order to stop market participants from taking unfair advantage of the information in order to profit monetarily (Wikibooks, 2013). Just the definition, meaning, and purposes of the term "capital markets" will be briefly discussed in this section. The phrase "capital market" refers to a broad category that includes both physical and virtual venues where different parties exchange different kinds of financial instruments (Hayes, 2023).

The currency and foreign exchange (forex) markets, the bond market, and the stock market are examples of these venues. Major financial hubs like New York, London, Singapore, and Hong Kong are home to the majority of markets. Fund providers and consumers make up the capital markets. Providers comprise individuals (via bank savings accounts) and organisations such as life insurance providers, pension and retirement funds, philanthropic foundations, and non-banking

businesses with surplus funds. Home and car buyers, non-financial businesses, and governments funding infrastructure investment and operating expenses are among the users of the funds distributed on capital markets (Hayes, 2023).

The main purpose of capital markets is to sell financial goods like debt securities and stocks. Stocks are ownership shares in a company and are referred to as equity. Bonds and other debt securities are interest-bearing IOUs. There are two types of capital markets: primary and secondary. New stock or bond issues are sold to investors in a primary market, frequently through a process called underwriting. Governments (local, state, federal) and corporate enterprises (companies) are the main entities looking to raise long-term capital on the primary capital markets. Companies frequently issue both bonds and equity, but governments only issue bonds. Pension funds, hedge funds, sovereign wealth funds, and, less frequently, affluent individuals and investment banks acting on their own behalf, are the primary buyers of the bonds and stock. Existing securities are purchased and sold by traders or investors in the secondary market, typically over the counter, on an exchange, or somewhere else. Since they are aware that they can probably quickly cash out their investments if necessary, investors are more willing to participate in primary markets when secondary markets exist (Hayes, 2023).

2.1 Elements of a capital market

Hayes (2023) provides the following as the elements of capital markets:

- Individual investors, financial institutions, insurance providers, commercial banks, corporations, and retirement funds are examples of market sources of funding.
- When investments increase over time, investors put money into them with the hope of realising capital gains. In addition, they get ownership rights, interest, and dividends.
- Businesses, entrepreneurs, governments, etc. are examples of fund-seekers. For instance, the government issues bonds and deposits to finance the economy and development initiatives.
- These markets often deal with long-term investments like equities, bonds, debentures, and government securities. In addition, hybrid securities such as preference shares and convertible debentures are offered.
- Stock exchanges are the main operators of the market. Other intermediaries include venture capitalists, investment banks, and brokerage firms.
- 🕒 The regulatory agencies are in charge of keeping an eye out for and stopping any illicit activity in the capital market. For instance, stock exchange operations are supervised by the Securities and Exchange Commission.

2.2 Distinction between capital markets and money markets

Investing is a part of both money markets and capital markets, but their differences outweigh their similarities. They carry varying degrees of risk and have distinct functions. Money markets have shorter durations and lower risk, but they also have lower potential returns. Longer-term capital markets often carry higher risk but also offer larger potential rewards (Hayes, 2023).

Securities are traded for longer terms (more than a year) on the capital market and for shorter terms (less than a year) on the money market. We were able to identify the characteristics of both markets by knowing the distinctions between the money and capital markets. The instruments of both markets

are the means by which securities are exchanged in the market. There is another significant distinction between the stock markets, which deal with equity securities, or shares, and allow investors to purchase company ownership, and the bond markets, which deal

with debt instruments and allow investors to become creditors.

In most cases, even when loans are extended for more than a year, regular bank lending is not considered a capital market transaction. In the first place, standard bank loans are not securitized; that is, they do not appear as marketable securities that can be bought and sold. Furthermore, bank loans are subject to stricter regulations than loans made on the capital market. Finally, investors in the capital markets are generally less risk-tolerant than bank depositors. The three distinctions collectively serve to restrict the availability of institutional lending as a funding source. There are two more distinctions, both of which support bank lending: banks are easier for small and medium-sized businesses to access, and they can generate revenue while lending. Bank loans raised the majority of company financing in the 20th century, with the exception of share issues. However, there has been a persistent trend towards disintermediation since around 1980, when big, creditworthy businesses discovered that borrowing directly from capital markets instead of banks effectively resulted in lower interest payments. In the US, businesses have a particularly strong inclination to borrow from capital markets rather than banks. As the primary source of long-term financing in 2009, capital markets surpassed bank lending, according to the Financial Times. This development is consistent with risk aversion and bank regulation following the 2008 financial crisis (Financial Times, 2018). Governments, banks, and other entities trade short-term debt in the markets, and individual investors own assets like bank accounts, certificates of deposit (CDs), money market accounts, money market funds, and similar securities. Additionally, traders exchange stocks, bonds, and other assets on the capital markets.

2.2.1 Money market in brief

According to the International Monetary Fund (2017), money markets give governments, banks, and other entities access to short-term, low-cost funding by allowing banks, investors, and others to make short-term, generally safe investments. As per the Financial Industry Regulatory Authority (FINRA, 2023), which is responsible for supervising U.S. stockbrokers, the money market in its entirety is regarded as one of the most secure areas of the financial domain. The following assets are bought and sold in the money markets: CDs, Treasury bills, money market mutual funds, bank-to-bank loans, and commercial paper, which is short-term IOU debt issued by large corporations and financial institutions (FINRA, 2023). Money market mutual funds are a common concept among investors when it comes to the money markets. Purchasing a money market mutual fund entails investing in a pool of short-term debt instruments like Treasury bills and CDs. Despite not having federal government insurance, money market mutual funds are thought to be among the safest investment options.

2.2.2 Capital market in brief

Investing in the capital markets occurs when investors own assets like stocks and bonds, either on their own or through mutual funds or exchange-traded funds (ETFs). The New York Stock Exchange (NYSE) and the Nasdaq Stock Market are well-known locations for stock trading in the capital markets. The world's largest stock exchange, the NYSE, and the Nasdaq, which specialises in tech businesses, see billions of shares of publicly traded company stock traded by investors every workday (Hayes, 2023).

Brokerage businesses typically manage stock trades for both individual and institutional clients. Typically, trades take place online. Capital markets serve as a means of bringing together different companies looking for money to underwrite costs in order to reach specified goals and individuals or institutions with money (also known as capital) that they wish to invest.

Additionally, capital markets enable the issue of securities on an exchange, where investors looking to deploy capital can buy stocks and bonds provided by individuals seeking capital (Majaski, 2023). Brokerage businesses typically manage stock trades for both individual and institutional clients. Typically, trades take place online. Capital markets serve as a means of bringing together different companies looking for money to underwrite costs in order to reach specified goals and individuals or institutions with money (also known as capital) that they wish to invest. Additionally, capital markets enable the issue of securities on an exchange, where investors looking to deploy capital can buy stocks and bonds provided by individuals seeking capital (Majaski, 2023).

2.2.3 How do capital markets work?

The issuing of securities is a crucial aspect of capital markets. Organisations looking to raise money trade debt or equity securities with investors. For instance, a company may issue fresh stock at a certain price. But once a security is on the open market, its price usually fluctuates constantly to reflect market demand (Majaski, 2023). Companies or other entities may choose to issue additional stock or bonds in order to raise cash. The money raised from investors would be used by the issuer to fund its ongoing operations. Individual investors may not always have access to original issues of stocks and bonds, such as in the case of stock initial public offerings (IPOs). The secondary market, where people who have already bought stocks or bonds can resell the securities they have, is where most people buy equities.

2.2.4 How do capital markets differ from financial markets?

Though there are some parallels between the two, financial markets can refer to any type of securities trading, whereas capital markets usually relate to the issue of new securities to raise cash.

Exchanges involving conventional securities, such as stocks and bonds, as well as other kinds of assets and contracts, are included in the broad category of financial markets. The majority of people use the secondary market to exchange securities.

3.0 METHODS OF RAISING FUNDS

3.3.1 Offer through Prospectus

This is a public issue technique. It's also the most popular way to raise money in the main market.

Here, the business uses an advertisement known as a prospectus to ask investors—general public members—to invest in their business. Subscriptions for shares and debentures are open to the public following the issuance of a prospectus. Shares are distributed to the public based on the response. If the subscriptions are very high, pro rata or lottery-style allocation will be used.

Although it usually works via brokers and underwriters, the corporation is able to sell the shares to the public directly. Another way to assist with the process is through merchant banks, particularly with initial public offerings (Majaski, 2023).

3.3.2 Private Placement

Public offerings are a costly endeavour. IPO incidental expenditures are typically extremely expensive. For this reason, several businesses would rather not take this course. They provide investment options to a limited number of people. As a result, the business will sell its shares to banks, insurance providers, financial institutions, and a few other chosen parties.

This will enable them to raise the money effectively, swiftly, and affordably. These businesses don't sell or make their securities available to the general public.

3.3.3 Rights Issue

Usually, a business will first approach its present investors when it wants to grow or needs more money. Thus, the chance to increase their investment in the company is extended to the current shareholders. They have the "right" to purchase fresh shares before the general public is given the opportunity. Pro rata is the method used for allocating these additional shares. The new shares will be assigned to the shareholder if he decides to exercise his entitlement and purchase the shares.

Nonetheless, these shares may be made available to the general public if the shareholder decides to give up his rights issue.

3.3.4 e-IPO

Electronic Initial Public Offer is what it stands for. Nowadays, a business can offer its shares to the general public online as well. The applicable stock market and the company sign an agreement known as the e-IPO. The SEBI implemented this approach in India about three years ago. This facilitates a quick and effective IPO procedure. Brokers will need to be employed by the business in order to accept the applications. Additionally, a registrar for the matter needs to be appointed.

4.0 TYPES OF CAPITAL MARKETS

The capital market is divided into two parts:

4.1 Primary Market

This market, sometimes referred to as the "New Issue Market," is where new securities are first traded and then made available to both individuals and institutions. Both public and private offerings are supported. An organisation raises money and achieves its long-term objectives by offering securities to the general public. Either an Initial Public Offer (IPO) or a Further Public Offer (FPO) is used to issue securities in the primary market. An organisation can make a public offer to investors to make an investment through an initial public offering (IPO). The original issuer and the investors are the parties to this deal in the primary market.

4.1.1 Four Key Players in the Primary Market

(i) Corporations

Corporations act like operational businesses in the capital markets, needing funds to expand and continue operating. These companies can differ in terms of size, location, and industry. Financial planning and analysis, investor relations, business development, and other market-related careers are available at corporations.

The four main participants in the primary market are public accounting companies, corporations, institutions, and investment banks. Institutions provide capital to companies that want to grow and expand, while companies give institutions loans or equity in exchange for the capital investment. Investment banks are employed to match organisations and institutions according to their investment style and risk tolerance.

(ii) Institutions ("Buy Side" Fund Managers)

Fund managers, institutional investors, and individual investors make up institutions. These investment managers give funds to companies that require it in order to expand

and run their operations. Companies provide debt or equity to the institutions in the form of bonds or shares in exchange for their money. The cycle of the two main participants in the capital markets is completed by the exchange of capital for debt or equity.

(iii) Investment Banks (“Sell Side”)

Investment banks are employed to operate as middlemen in transactions involving businesses and organisations. Investment banks work with corporations to match them with institutional investors based on their investment preferences, expectations for risk and return, and other factors. Financial modelling and value analysis are key components of careers in investment banking.

(iv) Public Accounting Firms

Public accounting companies can play a variety of functions in the main market, depending on their divisions. Financial reporting, taxation, accounting system consultancy, M&A advisory, capital raising, and auditing financial statements are some of these tasks. Consequently, organisations typically engage public accounting firms to provide accounting and advice services.

4.2 Secondary market

The reason it is termed secondary is that the securities it possesses are older and have already been released for trading on the primary market. The original issuer and the investors are the parties to this deal in the primary market. The buyer, seller, and stock exchange facility engage in a trade.

4.2.1 Key players in the secondary market

The secondary market permits the sale and trading of issued bonds and shares, in contrast to the primary market, which involves the initial issuance of debt or equity in return for capital. The secondary market facilitates easy entry and exit for participants, increasing market liquidity.

(i) Buyers and sellers

To buy securities or loans, fund managers or other investors must find a seller in the secondary market. Over-the-counter (OTC) and stock exchanges are two examples of central marketplaces where transactions are facilitated.

(ii) Investment banks

In the secondary market, investment banks speed up the sales and trading of issued debt and equity between buyers and sellers, while also assisting in the issuing of bonds and shares in the primary market.

Investment banks assist buyers and sellers in making decisions by offering equities research coverage on each stock's upside potential, downside risk, and logic. To further increase their revenues, investment banks trade and sell securities on behalf of their clients. To put it briefly, in the primary market, institutions provide capital to businesses that want to expand and run, and businesses in turn issue debt or shares in exchange. Investment banks advise organisations and companies on initial public offerings (IPOs) and mergers and acquisitions (M&A). The major players receive accounting and advice services from public accounting companies. In a centralised market, issued bonds and shares are sold and

traded in the secondary market. To assist buyers and sellers in making decisions regarding their assets, investment banks provide their sales, trading, and research services (Saalmuller, 2023). Lastly, financial statement preparation, review, and auditing, tax work, accounting system consultancy, mergers and acquisitions, and capital raising are all handled by public accounting firms. Therefore, primary market public accounting companies support businesses not only in raising capital but also in preparing, reviewing, and auditing financial statements to guarantee an accurate portrayal of their financial performance. The secondary market is where previously issued bonds and shares are sold and traded, whereas the primary market is where new bonds and shares are issued in exchange for money. On an exchange, buyers and sellers deal, and investment banks support this activity by offering coverage for equities research. The liquidity of the market is greatly increased by this freedom to buy, sell, and trade securities.

5.0 FUNCTIONS OF CAPITAL MARKET

Capital markets are involved in many different aspects of the financial industry. Majaski (2023) offers the items mentioned below:

5.1 Links borrowers and investors

The role of capital markets is to act as a middleman between those who have extra money and those who don't.

5.2 Capital formation

An essential component of capital formation is the capital market. It provides enough funds on time to meet the financial needs of various economic sectors.

5.3 Regulate security prices

It supports systematic pricing and the stability of securities. The system keeps an eye on every step of the process to make sure that nothing speculative or ineffective gets done. The borrower is assessed a standard interest rate or a minimum interest rate. Security prices in the economy stabilise as a result.

5.4 Provides opportunities to investors

Regardless of risk tolerance, the capital markets offer a wide enough range of financial instruments to satisfy the demands of each investor. Investors can potentially raise their capital yields by participating in capital markets. When compared to the return rate on stocks, the majority of savings accounts have incredibly low interest rates. As a result, although there are some risks associated, investors can obtain a better rate of return on the capital market.

5.5 Minimises transaction cost and time

On the capital market, securities with a long duration are traded. The entire trading procedure is expedited, streamlined, and costs less. Every step of the trading process is automated by a programme and system, which speeds up the entire procedure.

5.6 Capital liquidity

People can invest their money through the financial markets. They get to keep the stock or bond in return. Since bond certificates can't be used to buy food, cars, or other assets, they could have to be liquidated. On the capital markets, investors may sell their assets to a third party in exchange for liquid monies.

6. o WHO PARTICIPATES IN CAPITAL MARKETS?

Capital markets enable buyers and sellers to trade different forms of financial assets. There are several notable players in transactions:

- Analysts: Equity analysts who evaluate companies and compare their current prices to estimated values to determine whether shareholders should buy, hold, or sell
- Companies: Businesses that participate in capital markets to acquire assets to operate
- Buy-side investors: Institutional investors, such as mutual funds, hedge funds, and pension funds
- Sell-side institutions: Traders, salespeople, and investment banks
- Households: Consumers who invest money in the market by buying or selling individual stocks

7.o PROBLEMS WITH CAPITAL MARKETS

Capital markets can encourage disinformation, greed, and economic decline even though they are essential to the modern economy. Businesses and investors frequently use incentives, which have a significant impact on the market, to prolong these effects (Cote, 2022).

Bonuses and stock options, for instance, can incentivize workers and investors alike, but they can also discourage unethical decision-making, increase pay disparity and turnover, and weaken intrinsic values. Additionally, organisations could put pressure on equities analysts to do harsh assessments in order to guarantee their jobs.

Assessing the market using the opinions and analysis of others is much more prevalent. Although this strategy is occasionally used by elite analysts to evaluate the market, it frequently results in biased and erroneous assessments of capital markets. These evaluations lead to the principal-agent problem and asymmetric information, two significant issues.

7.1 Asymmetric information

Occurs in the capital market when a seller or buyer has access to more knowledge than the general public about the past, present, or future performance of an investment. Consequently, the investor is able to make a more profitable and well-informed choice about their investments than their peers.

This happens when employees or investors of businesses gain access to private and secret information and utilise it improperly to make money. Uneven information frequently results in imbalances in the capital markets. Under severe conditions, it can lead to market failure, as was the case with the mortgage crisis of 2007–2008 (Teshome, 2023).

7.2 Principal-agent problem

The principal-agent problem, which arises when an asset owner and the representative appointed to act on their behalf have competing priorities, is another capital market conundrum. Principal-agent issues in commercial partnerships include the following examples:

- Shareholders vs. management teams
- Financial institutions vs. rating agencies
- Voters vs. politicians
- Clients vs. lawyers

(i) Finding Solutions

- Common issues in the capital markets still lack a well-defined solution. Many options with advantages and disadvantages have been tested.
- There exist multiple strategies that organisations can employ to effectively handle asymmetric information and the principal-agent dilemma in capital markets.

- In an effort to address capital market difficulties, many businesses establish a board of directors to supervise management and guarantee that the interests of shareholders are fairly represented. The disadvantage is that board members are usually chosen by management, which opens the door to bias and manipulation.
- Companies usually use stock offerings as an incentive to staff in order to align corporate choices and priorities. This can spur employees to deliver their best work, managers to lead their teams, and CEOs to make choices that will benefit their companies and investors.
- The drawback is that in an effort to safeguard their companies' finances and stock prices, CEOs may become risk-averse when making financial decisions, even when they are advantageous to the company.
- Rather of enforcing supervision or inspiring leadership, some businesses penalise managers who make false statements. Although this strategy has its uses, it can also have negative effects on morale and incite managers to avoid taking important decisions in order to protect themselves.
- Private equity investors have the ability to buy out companies and remove them from public exchanges, even if they are well-established and publicly traded. They then keep an eye on the capital markets to predict the companies' next actions. This makes it possible for investors and corporate executives to assess and enhance internal objectives, controls, and procedures in addition to re-evaluating the markets and determining whether or not their firms should go public once more.
- However, for an investor to profit, a company needs to be publicly traded. Furthermore, there's no assurance that an investor—especially if they have insider knowledge—won't run into the same problems with principal-agent interactions or asymmetric information.

8.0 RISKS IN CAPITAL MARKETS

Financial systems known as capital markets allow investors to purchase and sell stocks, bonds, and other securities. They give companies a means of obtaining debt and equity financing for operations or investments. Nevertheless, it can be dangerous to invest in these markets since political or economic developments could make returns on investments fall short of expectations.

Before making an investment, investors must be aware of a variety of dangers. According to Taylor (2024), investors should consider the following risks before selecting a market.

8.1 Economic risks

Economic risks are some of the most important risks to consider. Interest rate risk, inflation risk, exchange rate risk, and sovereign debt default risk are all examples of economic risks.

8.2 Credit risk

Another category of risk is credit risk. These hazards have to do with the potential for a debt instrument's issuer to be unable to make payments in full or on schedule. There are two kinds of credit risks: recovery risk and default risk.

8.3 Market and liquidity risks

Examples of market and liquidity hazards include pricing risk, liquidity risk, and market volatility risk. Political risks include, for example, the danger of regulatory changes and political instability.

Investors also need to be mindful of additional risks, such as opportunity cost risk and legal risks,

in addition to technological concerns.

These risks should be known to investors as they have the potential to result in large losses. For instance, changes in market circumstances or emotion might result in a substantial fluctuation in the price of an asset, either up or down. This is known as the market volatility risk. Investors may suffer significant losses as a result. Comparably, one sort of technology risk that results from bad actors trying to access systems or data without authorization is cyber security risk. Malicious actors may obtain access to investor data if it is not adequately secured, using it for illicit activities that could cause financial losses or harm to the affected person's or company's reputation.

Investors should thoroughly evaluate possible investments before entering into transactions and consider all risks to protect themselves from these hazards. They should also make sure all required paperwork is thoroughly examined before engaging in a transaction and keep abreast of any changes to regulations. Investors should also constantly be informed of technology advancements that could affect particular asset classes so they can modify their portfolios appropriately. Through the use of measures like these, investors can safeguard themselves from potentially expensive errors when engaging in the capital markets and guarantee that their investments are suitably positioned for sustained prosperity.

You may understand how the Indian Capital Market operates now at Elearnmarkets. We will talk about the roles that middlemen play in the stock market. The Indian capital markets' structure will next be discussed, and lastly, the Securities Exchange Board of India (SEBI) and its function in the stock market scene will be acknowledged.

CONCLUSION

As this essay has shown, a capital market is a venue for the trading of funding products including bonds, stocks, debentures, and other debt instruments. It is a way for people, businesses, and governments to raise money. Through the provision of a platform for raising capital for business operations, development initiatives, or wealth enhancement, a capital market supports an economy.

The circular flow of money idea governs how a capital market operates. Capital markets play a crucial role in stimulating economic growth through the effective distribution of resources, creation of wealth for investors, and maintenance of transparency and liquidity in financial dealings. They are essential to risk diversification and price setting, and they provide the foundation of both corporate governance and international investment prospects. The stock market, one of the main components of the capital market, is where stocks are traded, allowing investors to purchase shares in firms and possibly profit from their expansion as well as businesses to raise funds. By bringing together individuals with money to invest and those in need of funding, such as governments and companies, they play a vital role in the financial sector.

Capital markets facilitate wealth generation, price setting, and economic growth by providing a range of investment options, such as stocks and bonds. These marketplaces assist the growth and innovation of firms while guaranteeing the effective use of resources, transparency, and chances for investors to increase their capital. There are two segments to the capital market. The primary market and the secondary market are these.

The primary market, sometimes referred to as the New Issue Market, is where new securities are first traded and then made available to both individuals and institutions. It is compatible with both public and private offers. An organisation sells securities to the general public in order to

raise money and accomplish its long-term objectives. The securities are issued on the primary market through an IPO or a further public offer (FPO). An organisation can make a public offer to investors through an initial public offering (IPO) in order to solicit their first investment. In the primary market, this deal is taking place between investors and the original issuer.

The reason the secondary market is termed secondary is because the securities it carries are older and have already been offered for trading on the primary market. The original issuer and the investors are the parties to this deal in the primary market. The buyer, seller, and stock exchange facility engage in a trade.

Capital markets can encourage disinformation, greed, and economic downturns even though they are essential to the modern economy. Businesses and investors frequently use incentives, which have a significant impact on the market, to prolong these effects. Businesses and investors frequently use incentives, which have a significant impact on the market, to prolong these effects. Interest rate, equity, currency, and commodity risks are the most prevalent kinds of market hazards.

Interest rate risk is the volatility that can be associated with changes in interest rates brought about by underlying causes, such as announcements by central banks on monetary policy adjustments.

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