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What all comes under financial markets?

'Financial markets' is a generic term for multiple markets of the financial world. However, it does not restrict itself to markets. Here's the difference.

A market is a central place — physical or electronic, that is set up by a government body or a private entity to facilitate interaction between buyers, sellers, speculators, arbitrageurs and complex strategies.

On the other hand, financial markets also include financial systems that are not markets. For instance, the buying and selling of insurance is not through a central marketplace but happens in a scattered manner between insurance companies, their agents and individuals/companies.

The umbrella of financial markets extends to stock markets, debt markets, money markets, mutual fund industry, insurance industry, commodity markets, foreign exchange markets, derivatives markets and the banking system.

The objective of any financial market is not just to bring together interested participants but also to allocate resources in the economy efficiently. Sellers of goods, or providers of various services, produce goods or give services that meet the existing or potential needs of other individuals/companies. They also enable the borrowers to connect with the lenders.

Almost all modern economists have been using the pretext of financial markets to propagate their economic theories. Eugene Fama, an American economist, even gave it a formal touch when he came up with his 'efficient market hypothesis'. Fama defined an efficient financial market as 'one in which prices always fully reflect available information'.

BACK TO SCHOOL

— Rajesh Gajra

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