

Chapter 11: Financial Markets

Study Guide

11. 1: Savings & the Financial System

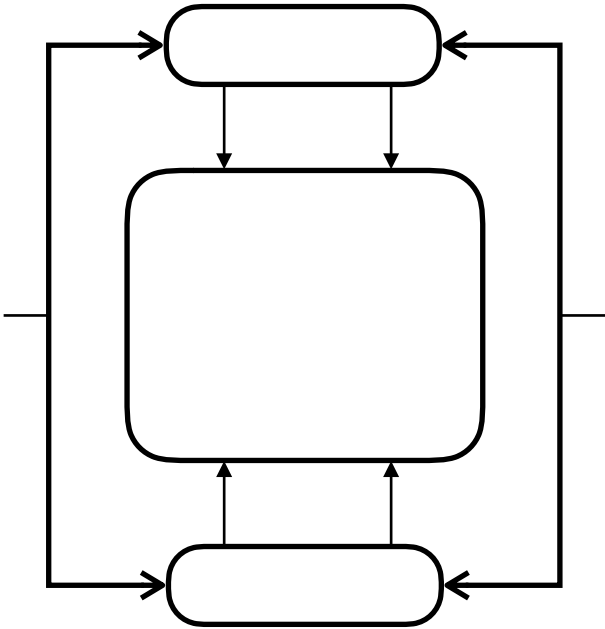
Vocabulary

- Savings:
- Certificate of Deposit (CD):
- Financial assets:
- Financial intermediaries:
- Financial system:
- Finance company:
- Premium:
- Pension:
- Pension fund:
- Risk:

Questions:

1. What is the role of savings in the financial system?
2. What’s the difference between a savings account and a certificate of deposit?
3. Can any of the financial intermediaries exist without savers? Explain
4. Explain the relationship between risk and return.
5. What are the main differences between credit unions, banks, and life insurance companies in how they serve the financial system?
6. What are the advantages and disadvantages of a risky investment?
7. Assume that America has been going through a long period of financial prosperity. People are confident in their jobs, and saving has become a low priority for many people and for businesses. What would be the long-term consequences of this action for individuals and businesses? Explain how this situation would affect the circular flow of finance.

Fill in the Circular Flow Model



Vocabulary

Par value:

Maturity:

Coupon rate:

Current yield:

Junk bonds:

Municipal bonds:

Tax-exempt:

Savings bonds:

Treasury notes:

Treasury bonds:

Treasury bills:

Individual Retirement Accounts (IRAs):

Capital market:

Money market:

Primary market:

Secondary market:

Questions:

1. What factors determine a bonds value?
2. In general, which bond would pay a higher interest rate on your investment a Treasury bond or a junk bond? Why?
3. What financial assets are the safest?
4. How are money market mutual funds created?
5. Why might an investor choose a certificate of deposit (CD) over a corporate bond?
6. How are capital and money markets different? How do primary and secondary markets differ?
7. What benefit to investors does investing in the secondary market have over investing in the primary market?

8. Fill in the Financial Assets and their Markets chart.

	Money Market (less than 1 year)	Capital Market (more than 1 year)
Primary Market		
Secondary Market		

9. Refer to the chart: What determines whether an asset is in the secondary market?

10. Refer to the chart: Why do some financial assets, such as CDs appear in more than one market?

Vocabulary

Equities:

Stockbroker:

Efficient Market Hypothesis (EMH)

Portfolio diversification:

Mutual Fund:

Net asset value (NAV):

401(k) plan:

Vesting:

Stock or securities exchange

Dow Jones Industrial Average (DJIA):

Standard & Poor's 500:

Bull market:

Bear market:

Spot market:

Future contract:

Option:

Call option:

Put option:

Questions:

1. What's the difference between a stockbroker and an internet discount broker?
2. Why is portfolio diversification important?
3. What happens if you try to take your 401(k) funds out early?
4. What determines the value of a stock?
5. How is stock market performance evaluated?
6. What's the difference between the Dow Jones Industrial Average and Standard & Poor's 500?
7. Describe each of the following stock markets:
 - NYSE Euronext:
 - AMEX-NASDAQ:
8. Why might a contract that takes place in the future be an advantage to the buyer or seller?