Graduate Certificate in Finance and Sustainability

Financial Markets and Institutions

Financial Markets and Institutions Glossary

A

Asset Allocation: Asset allocation is the process of dividing an investment portfolio among different asset classes such as stocks, bonds, and cash equivalents. The goal of asset allocation is to optimize risk and return based on an individual's financial goals and risk tolerance.

B

Bond: A bond is a debt security issued by a corporation or government to raise capital. When an investor buys a bond, they are essentially lending money to the issuer in exchange for periodic interest payments and the return of the bond's face value at maturity.

C

Capital Market: The capital market is a financial market where individuals and institutions trade financial securities such as stocks and bonds. The capital market helps channel savings and investment between suppliers of capital and those who are in need of capital.

D

Diversification: Diversification is a risk management strategy that involves spreading investments across different asset classes, industries, and geographic regions to reduce the impact of any single investment's performance on the overall portfolio.

E

Efficient Market Hypothesis (EMH): The efficient market hypothesis states that asset prices fully reflect all available information, making it impossible to consistently outperform the market through stock selection or market timing.

F

Financial Institution: A financial institution is a company that provides financial services to its customers, such as banks, insurance companies, and investment firms. Financial institutions play a crucial role in the economy by facilitating the flow of funds between savers and borrowers.

G

Government Bond: A government bond is a debt security issued by a government to finance public spending. Government bonds are considered low-risk investments because they are backed by the full faith

and credit of the issuing government.

H

Hedge Fund: A hedge fund is an investment fund that pools capital from accredited investors and uses a variety of strategies to generate returns. Hedge funds are typically open only to high-net-worth individuals and institutional investors due to their complex and high-risk nature.

I

Interest Rate: The interest rate is the cost of borrowing money or the return on invested capital. Interest rates are determined by market forces and play a crucial role in the economy by influencing consumer spending, business investment, and inflation.

J

Joint Stock Company: A joint stock company is a business entity in which shares of the company's stock can be bought and sold by shareholders. Joint stock companies allow for the pooling of capital from multiple investors to finance business operations.

K

Keynesian Economics: Keynesian economics is a macroeconomic theory that advocates for government intervention in the economy to stimulate demand during periods of economic downturn. The theory is based on the ideas of British economist John Maynard Keynes.

L

Liquidity: Liquidity refers to the ease with which an asset can be bought or sold in the market without significantly impacting its price. Liquid assets are easily tradable, while illiquid assets may take longer to sell.

M

Money Market: The money market is a segment of the financial market where short-term debt securities with maturities of one year or less are traded. Money market instruments include Treasury bills, commercial paper, and certificates of deposit.

N

NASDAQ: The NASDAQ Stock Market is an American stock exchange that is home to many technology and growth-oriented companies. NASDAQ is known for its electronic trading platform and high-flying tech stocks.

O

Options: Options are financial derivatives that give the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price within a predetermined time frame. Options are commonly used for

hedging and speculation.

P

Private Equity: Private equity is a type of investment in which capital is invested in privately held companies in exchange for an ownership stake. Private equity investors typically aim to improve the performance of the company and earn a substantial return on their investment.

Q

Quantitative Easing: Quantitative easing is a monetary policy tool used by central banks to stimulate the economy by buying financial assets such as government bonds. Quantitative easing increases the money supply and lowers long-term interest rates.

R

Return on Investment (ROI): Return on investment is a financial metric that measures the profitability of an investment relative to its cost. ROI is calculated by dividing the investment's net profit by the initial investment amount and is expressed as a percentage.

S

Stock: A stock, also known as a share or equity, represents ownership in a corporation. When an investor buys a stock, they become a shareholder in the company and are entitled to a portion of the company's profits through dividends and capital appreciation.

T

Trading Volume: Trading volume is the number of shares or contracts traded in a security or market during a given period. High trading volume is often seen as a sign of market activity and can influence price movements.

U

Underwriting: Underwriting is the process by which an investment bank or financial institution agrees to purchase a new issue of securities from a company and then resell them to investors. Underwriting helps companies raise capital by guaranteeing the sale of their securities.

V

Volatility: Volatility is a measure of the degree of variation in the price of a financial instrument over time. High volatility indicates large price swings, while low volatility suggests a more stable price movement.

W

Wall Street: Wall Street is a street in Lower Manhattan, New York City, that is synonymous with the financial industry in the United States. The term "Wall Street" is often used to refer to the financial markets and

institutions located in the area.

X

XBRL (eXtensible Business Reporting Language): XBRL is a global standard for exchanging business information in a digital format. XBRL allows companies to prepare financial statements that can be easily shared and analyzed by investors, regulators, and other stakeholders.

Y

Yield Curve: The yield curve is a graphical representation of the relationship between the yields on bonds of different maturities. The shape of the yield curve can provide insights into the future direction of interest rates and the overall health of the economy.

Z

Zero-Coupon Bond: A zero-coupon bond is a debt security that does not pay periodic interest payments. Instead, the investor purchases the bond at a discount to its face value and receives the full face value at maturity. Zero-coupon bonds are issued at a deep discount and provide a return through capital appreciation.

Financial Markets and Institutions Glossary

Financial Markets and Institutions: Financial markets refer to platforms where individuals and institutions can buy and sell financial assets such as stocks, bonds, commodities, and currencies. Financial institutions are organizations that facilitate the flow of funds between savers and borrowers in the financial markets.

Asset: An asset is anything of value that can be owned or controlled to produce positive economic value. Examples of assets include stocks, bonds, real estate, and commodities.

Bond: A bond is a fixed-income investment where an investor loans money to an entity (typically a corporation or government) that borrows the funds for a defined period at a fixed interest rate.

Capital Market: The capital market is a financial market where individuals and institutions trade financial securities such as stocks and bonds. It is a long-term market for raising capital.

Debt Market: The debt market is a financial market where investors buy and sell debt securities such as bonds and mortgages. It provides a means for governments and corporations to borrow money from investors.

Equity: Equity represents ownership in a company and is typically represented by shares of common stock. Equity holders have a claim on the company's assets and earnings.

Financial Intermediary: Financial intermediaries are institutions that act as middlemen between savers and borrowers in the financial system. Examples include banks, insurance companies, and mutual funds.

Hedge Fund: A hedge fund is an investment fund that pools capital from accredited investors and invests in

a variety of assets to achieve high returns. Hedge funds are known for their use of leverage and alternative investment strategies.

Initial Public Offering (IPO): An initial public offering is the process by which a private company offers shares of its stock to the public for the first time. It is a way for companies to raise capital and become publicly traded.

Money Market: The money market is a segment of the financial market where short-term debt securities are bought and sold. It provides a way for institutions to manage their liquidity needs.

Option: An option is a financial derivative that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price within a specified period.

Primary Market: The primary market is where new securities are issued and sold for the first time. It is the market where companies raise capital by issuing stocks and bonds to investors.

Quantitative Easing: Quantitative easing is a monetary policy tool used by central banks to stimulate the economy by purchasing government securities and other financial assets. It aims to lower interest rates and increase the money supply.

Risk Management: Risk management is the process of identifying, assessing, and mitigating risks in order to protect an organization's assets and financial health. It involves strategies to minimize the impact of uncertain events on an organization.

Securities: Securities are tradable financial assets such as stocks, bonds, and options. They represent ownership in a company or a promise to repay a debt.

Time Value of Money: The time value of money is the concept that a dollar received today is worth more than a dollar received in the future due to its potential earning capacity. It is the foundation of finance and investment analysis.

Underwriting: Underwriting is the process by which an investment bank or financial institution assesses the risk of issuing securities and guarantees a certain price to the issuing company. It ensures that the securities will be sold to investors.

Volatile Market: A volatile market is a financial market characterized by rapid and unpredictable price changes. Volatility can be caused by economic events, investor sentiment, or other factors.

Yield: Yield is the return on an investment, usually expressed as a percentage. It can refer to the interest earned on a bond or the dividends received from a stock.

Zero-Coupon Bond: A zero-coupon bond is a bond that does not pay interest during its term but is sold at a discount to its face value. The investor receives the face value of the bond at maturity.

Arbitrage: Arbitrage is the practice of buying and selling assets simultaneously in different markets to profit from price discrepancies. It takes advantage of inefficiencies in the market.

Bankruptcy: Bankruptcy is a legal process where an individual or organization declares that they are unable to repay their debts. It allows for the restructuring or liquidation of assets to satisfy creditors.

Collateral: Collateral is an asset pledged as security for a loan. If the borrower fails to repay the loan, the lender can seize the collateral to recoup its losses.

Derivative: A derivative is a financial contract whose value is derived from an underlying asset such as a stock, bond, or commodity. Examples of derivatives include options, futures, and swaps.

Exchange-Traded Fund (ETF): An exchange-traded fund is a type of investment fund that trades on stock exchanges like a stock. ETFs typically track an index, commodity, or basket of assets.

Financial Statement: A financial statement is a formal record of an entity's financial activities, including its assets, liabilities, and equity. It provides a snapshot of the organization's financial health.

Gross Domestic Product (GDP): Gross Domestic Product is the total value of all goods and services produced within a country's borders in a specific period. It is a key indicator of an economy's health.

Hedging: Hedging is a risk management strategy used to offset potential losses in one investment by taking an opposite position in another investment. It helps protect against adverse market movements.

Interest Rate: The interest rate is the cost of borrowing money or the return on investment expressed as a percentage. It influences consumer spending, business investment, and economic growth.

Junk Bond: A junk bond is a high-yield, high-risk bond issued by companies with a low credit rating. Junk bonds offer higher returns to compensate for the increased risk of default.

Liquidity: Liquidity refers to the ease with which an asset can be bought or sold without affecting its price. Liquid assets are easily traded in the market.

Maturity: Maturity is the date when a financial instrument such as a bond or a loan becomes due and is repaid to the investor or lender. It signifies the end of the investment period.

Net Asset Value (NAV): Net Asset Value is the value of a mutual fund's assets minus its liabilities, divided by the number of outstanding shares. It represents the price at which investors can buy or sell shares.

Over-The-Counter (OTC): Over-The-Counter refers to the trading of securities directly between two parties without going through an exchange. OTC markets are less regulated than organized exchanges.

Portfolio: A portfolio is a collection of investments such as stocks, bonds, and mutual funds held by an individual or institution. It is managed to achieve specific financial goals.

Quantitative Analysis: Quantitative analysis is a method of financial analysis that relies on mathematical and statistical techniques to evaluate investments and financial data. It is used to make informed investment decisions.

Return on Investment (ROI): Return on Investment is a measure of the profitability of an investment,

expressed as a percentage. It shows how much profit an investment has generated relative to its cost.

Securitization: Securitization is the process of pooling financial assets such as mortgages or loans and selling them to investors as securities. It allows for the transfer of risk and the creation of new investment opportunities.

Transaction Cost: Transaction costs are the expenses incurred when buying or selling an asset, such as brokerage fees, commissions, and taxes. They reduce the overall return on an investment.

Underwater: Being underwater refers to a situation where the market value of an asset is lower than the outstanding balance of a loan secured by that asset. It can lead to financial difficulties for the borrower.