Intro to Capital Markets

Key Concepts
Exchange, Trade, Imports, Exports, Gains from Trade, Mutual Benefit, Market Efficiency, Price Signaling, Competition, Markets, Market Structure, Supply, Demand

Objectives
Students will be able to:

- Understand how trade has influenced development
- Identify different types of markets
- Explain how market participants transact voluntary
- Learn about trade and why countries participate in it
- Understand that both parties gain from trade

Vocabulary
Counterparty: The person/s or institution/s engaging in a transaction

Broker: A person who functions as an intermediary between two or more parties in negotiating agreements, bargains or the like –OR– an agent who buys or sells for a principal on a commission basis without having title to the property

Dealer: A person who buys securities for his or her account and retains them until sold to another

Import: Goods or services created in one country and shipped *into* another country, specifically for sale

Export: Goods or services created in one country and shipped *out to* another country, specifically for sale

Standard of Living: Refers to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area

Class Summary
Ancient markets developed along trade routes across Europe and Asia. Many of today's most populated cities can trace their origins directly back to markets established long ago. These markets were places where merchant travelers would stop to trade and rest before continuing

on their journeys. Each of these ancient cities shares similar attributes regardless of country or culture. In the East, these meeting locations are called bazaars; in the West, they are called markets.

Regardless of the name, trade is a social activity between two parties and is founded on two key principles. The first is that participants enter freely into acts of exchange. The second is that both parties must perceive benefit in order to facilitate a transaction, economically called "mutual benefit."

Today when we think of modern markets, most people think of places of convenience, locations where we can easily find and simply purchase all kinds of goods, such as a grocery store or shopping mall.

Financial markets work much the same way. The three main financial markets are for commodities, stocks and bonds; however, each market is unique in its own way. Historically, commodity markets facilitated trading between producers and consumers of agricultural products, as both parties looked to minimize their risk to price changes. In today's commodity markets, many new and sometimes complex financial products are traded.

Modern stock markets can trace their beginnings to the Dutch East India Company. The first known issuance of shares to the public in 1602 was shortly followed by the first stock exchange in Amsterdam. While the first stock market in the US may have begun in Philadelphia, the most famous is undoubtedly the New York Stock Exchange, which was formed just two years after the Philadelphia Stock Exchange. Over time, "Wall Street" has transformed to include not just the physical location but also an ideology today called capital markets. This location is where entrepreneurs find capital and where those with capital to spare find an investment.

Bond markets are older and significantly bigger than stock markets. The earliest bond markets in the US formed to trade the debt obligations of the newly-formed government of the Unites States of America. These early bonds not only established the credibility of the US as a payer of debts, but also fueled the growth of the nation, specifically the Louisiana Purchase. Unlike stocks, bonds trade Over-The-Counter (OTC). Over time, methods of trading have kept pace with advancements in communication and technology.

The benefits that civilization has accrued due to the economic incentives provided by financial markets are impressive. Over the past two millennia, world Gross Domestic Product (GDP) has grown approximately 2,000%. However, financial markets have only become popular in the last two centuries. Prior to financial markets, world GDP growth was equal to world population growth or about 200% growth over the past 18 centuries. The results show that almost 90% of world GDP growth over the past 2,000 years has occurred in just the last two centuries.