# ***Week 2 - Financial Market***

Why does an organization go for listing in Bursa Malaysia?

The primary objective is for **Expansion** (*like merger and acquisition*):

At times, internally generated funds (Shareholders Fund) will not be sufficient to finance all of the firm's proposed expenditures.

Therefore, in these situations, the corporation may find it necessary to attract large amount of financial capital externally or otherwise they will forgo the projects that are forecast to be profitable.

# ***Week 2 - Financial Market***

Why does an organization go for listing in Bursa Malaysia?

When organizations decide to raise cash in the **financial market**, what type of financing vehicle is most favoured?

~ Is it done through only common stocks (shares listed in Bursa Malaysia)?

~ Is it done through only debts (bonds, loans) or done for both of them (common stocks & debts)?

~ Which one is advisable to do for long term / short term / both?

# ***Week 2 - Financial Market***

Why would economy suffer without a developed financial market system?

Some economic units such as households, firms or government, spend more during a given period than they earn. For example, business firms in the aggregate usually spend more during a specific period than they earn. As a result, some mechanism is needed to facilitate the transfer of savings from those economic units with a surplus to those with a deficit.

That is precisely the function of financial markets. Financial markets exist in order to allocate the supply of savings in the economy to the demanders of those savings. The central

# ***Week 2 - Financial Market***

Why would economy suffer without a developed financial market system? (cont'd)

characteristic of a financial market is that it acts as the vehicle through which the forces of demand and supply for a specific type of financial claim (such as a corporate bond) are brought together.

# ***Week 2 - Financial Market***

Types of financial markets - **2**

**Money markets** are the part of financial markets in which funds are borrowed or loaned for short periods (less than one year). It is very highly liquid debt securities. For example: Treasury Bills, Banker's Acceptances, Commercial Paper and Consumer Credit Loans.  Nowadays you can see banks carry out some of their operations at the money markets.



The traders or participants in the money market are:

(a) Financial intermediary (mainly banks)

(b) The government, essentially through central bank

(c ) The local authorities, brokers and market makers

# ***Week 2 - Financial Market***

Types of financial markets - **2**

**Capital markets** are the part of financial markets for stocks and for intermediate / long term debt (one year or longer). For example, bonds and notes, state and local government bonds, corporate bonds, shares, preferred shares, and leases.



Companies can raise long term finance from the capital market by issuing shares to investors in return for money. Usually, capital market comprises of two types of markets. They are as follows:

# ***Week 2 - Financial Market***

Types of financial markets - **2**

(a) Primary markets are the markets in which corporations raise new capital by issuing new securities.



***Initial Public Offering (IPO)*** markets are the markets where firms "go public" by offering shares to the public for the first time. It is also a market, which is a subset of the primary market.  For example, if you want to buy new shares of a newly listed company, the place to go to is the issuing house.

# ***<u>Week 2 - Financial Market</u>***

Types of financial markets - **2**

(b) <u>Secondary markets</u> are the markets in which securities and other financial assets are traded among investors after they have been issued by corporations such as ***NYSE*** in the US, ***London Stock Exchange*** in UK, ***Bursa Malaysia*** in Malaysia.

The corporation whose securities are being traded is not involved in a secondary market transaction and, thus, it does not receive any funds from such a sale.