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Certificate in Development Finance and Policy

## Financial Markets and Institutions

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### Financial Markets and Institutions Glossary

**Asset Allocation:** Asset allocation is the process of dividing an investment portfolio among different asset categories such as stocks, bonds, and cash equivalents. This strategy aims to balance risk and return based on an individual's investment goals, risk tolerance, and time horizon.

**Bond:** A bond is a debt security issued by a corporation or government to raise capital. When an investor purchases 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.

**Capital Market:** The capital market is a financial market where long-term debt and equity securities are bought and sold. It includes stock exchanges and bond markets where corporations and governments can raise funds by issuing securities to investors.

**Derivative:** A derivative is a financial instrument whose value is derived from an underlying asset such as stocks, bonds, commodities, or currencies. Common types of derivatives include options, futures, forwards, and swaps.

**Exchange-Traded Fund (ETF):** An exchange-traded fund is a type of investment fund that trades on stock exchanges like individual stocks. ETFs typically track an index, commodity, or basket of assets and provide investors with diversification and liquidity.

**Financial Institution:** A financial institution is a company that provides financial services such as banking, investing, and insurance to individuals and businesses. Examples of financial institutions include banks, credit unions, brokerage firms, and insurance companies.

**Government Bond:** A government bond is a debt security issued by a government to finance its operations and projects. Government bonds are considered low-risk investments because they are backed by the full faith and credit of the government issuer.

**Hedge Fund:** A hedge fund is an investment fund that pools capital from accredited investors and institutional investors to pursue high returns through a variety of strategies including long/short equity, global macro, and event-driven investing.

**Initial Public Offering (IPO):** An initial public offering is the process by which a private company offers its shares to the public for the first time. Companies go public through an IPO to raise capital, increase liquidity, and provide exits for early investors.

**Joint Stock Company:** A joint stock company is a type of business entity in which ownership is divided into shares of stock that can be bought and sold by shareholders. Joint stock companies have limited liability and can raise capital by issuing shares to investors.

**KYC (Know Your Customer):** Know Your Customer is a regulatory requirement that financial institutions must follow to verify the identity of their customers and assess the risk of money laundering and terrorist financing. KYC involves collecting personal information and conducting due diligence on customers.

**Leverage:** Leverage is the use of borrowed funds to increase the potential return of an investment. While leverage can amplify gains, it also magnifies losses and increases the risk of a margin call if the investment moves against the investor.

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

**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. NAV is calculated daily and used to determine the price at which investors can buy or sell shares of the mutual fund.

**Over-the-Counter (OTC) Market:** The over-the-counter market is a decentralized market where securities are traded directly between buyers and sellers without a central exchange. OTC markets include stocks, bonds, derivatives, and foreign currencies.

**Private Equity:** Private equity is a type of investment that involves investing in private companies or buying out public companies to take them private. Private equity investors aim to improve the performance of their portfolio companies and generate high returns.

**Quantitative Easing (QE):** Quantitative Easing is a monetary policy used by central banks to stimulate the economy by buying long-term securities to lower interest rates and increase the money supply. QE is typically used during times of economic recession or deflation.

**Regulatory Capital:** Regulatory capital is the amount of capital that financial institutions are required to hold to meet regulatory requirements and protect against losses. Regulatory capital includes Tier 1 and Tier 2 capital components based on their quality and ability to absorb losses.

**Securities and Exchange Commission (SEC):** The Securities and Exchange Commission is a regulatory agency in the United States that oversees the securities industry, enforces securities laws, and protects investors. The SEC regulates stock exchanges, brokerage firms, and investment advisors.

**Treasury Bond:** A Treasury bond is a long-term debt security issued by the U.S. Department of the Treasury to finance the government's operations and projects. Treasury bonds are considered risk-free investments



because they are backed by the U.S. government.

**Underwriting:** Underwriting is the process by which an investment bank or underwriter assesses the risk of issuing securities and determines the terms and conditions of the offering. Underwriters guarantee the sale of securities to investors at a predetermined price.

**Volatility:** Volatility is a measure of the degree of variation in the price of a financial instrument over time. High volatility indicates that the price of the instrument fluctuates significantly, while low volatility indicates a stable price movement.

**Wall Street:** Wall Street is a street in Lower Manhattan, New York City, where the New York Stock Exchange and major investment banks are located. Wall Street is synonymous with the U.S. financial industry and serves as a symbol of global finance.

**Yield Curve:** The yield curve is a graphical representation of the interest rates of bonds with different maturities plotted on a graph. The shape of the yield curve can provide insights into the economic outlook, inflation expectations, and monetary policy.

**Zero-Coupon Bond:** A zero-coupon bond is a debt security that does not pay periodic interest payments to investors. Instead, zero-coupon bonds are sold at a discount to their face value and pay the full face value at maturity, generating a return through capital appreciation.