

Financial Management

Financial Theory, Definitions and Trends

Finance is the science of describing the management of money, banking, credit, investments, and assets. Finance theory is the field which deals primarily with investment making decisions and the concept of the time value of money.

An evolutionary trend is a general direction of evolutionary change. There is a gradual trend toward increased centralization and control of global treasury activities. Acquiring and enhancing treasury technology still remains a major focus. A revolutionary trend, on the other hand, is relatively more radical. Sarbanes Oxley brought such trend, but it became less of a burden in recent days.

A financial market is a mechanism or sort of a platform which allows people to easily trade financial securities, commodities, and other fungible items of value at reasonable transaction costs and at prices that can properly serve as an efficient-market.



Notes:

Both general markets (with many commodities traded) and specialized markets (with only one commodity traded) exist. They all work the same - by placing many interested buyers and sellers in one "place", thus making it easy for them to locate each other. In fact, an economy which relies primarily on interactions between these buyers and sellers to allocate resources is known as a market economy.

A detail breakdown of the types of capital market:

- Stock markets provide financing through the issuance of shares or common stock, and enable the subsequent trading thereof.
- Bond markets provide financing through the issuance of bonds, and enable the subsequent trading thereof.
- Commodity markets facilitate the trading of commodities.
- Money markets provide short term debt financing and investment.
- Derivatives markets provide instruments for the management of financial risk.



Notes:

- Futures markets provide standardized forward contracts for trading products at some future date.
- Insurance markets facilitate the redistribution of various risks.
- Foreign exchange markets facilitate the trading of foreign exchange.

Bond is a kind of debt security in which the authorized issuer owes the holders a debt and is obliged to pay interest and/or to repay the principal at a later date at maturity. A bond can therefore be thought of as a formal contract on repaying borrowed money with interest at fixed intervals. Having said that, a bond is no different from a loan - the issuer is the borrower (debtor), the holder is the lender (creditor), and the coupon is the interest. It is mostly used for financing long-term investments.

An Indenture is a legal contract between two parties. A Bond Indenture is a legal document issued to the lenders for describing key terms of the lending such as the interest rate, maturity date, convertibility, pledge, promises, representations, covenants, and other terms of the bond offering.

