## CHAPTER 1:

## Fundamentals of the financial system

# Textbook Questions

###  Review questions

*The following questions appear in the textbook on page 34.*

*Answer the following questions.*

**What are the six elements of the financial system?**

**Lenders and borrowers, financial intermediaries, financial instruments, financial markets, money creation, price discovery.**

**Lenders and borrowers intermediate the lending and borrowing process. Is this statement true or false?**

**False. Financial intermediaries intermediate the lending and borrowing process.**

**Name the allied participants/players/entities in the system without which it would not function efficiently.**

**Brokers and dealers (collectively: broker-dealers), fund managers, credit rating agencies, financial exchanges, financial regulators.**

**There are two types of shares: ordinary shares and Treasury shares. Is this statement true or false?**

**False. The two types of shares are ordinary shares and preference shares.**

**What are the two types of bank deposits?**

**Negotiable certificates of deposit (NCDs) and non-negotiable certificates of deposit (NNCDs).**

**What are the categories of investment vehicles?**

***Contractual intermediaries* (retirement funds, life insurers), *collective investment schemes* (securities unit trusts, property unit trusts, exchange traded funds), *alternative investments* (hedge funds, private equity funds).**

**How would you define the foreign exchange market?**

**The foreign exchange market is the market for the exchange of one currency (e.g. the South African rand or ZAR) for another (e.g. the US dollar or USD). An example of an exchange rate is USD/ZAR 7,35.**

**What is the main factor that differentiates spot/cash market from derivative markets?**

**Prices in both markets are set now, but settlement dates differ: the spot/cash market settles as soon as possible and derivative deals are settled in the future.**

**What are the two components of the money stock?**

**Notes and coins and bank deposits held by the domestic non-bank private sector.**

**What are the functions of the financial system?**

**Channelling of savings into investments, pooling of savings, efficient allocation of funds, transferring of funds through time and across borders, money creation, provision of an efficient payments system, enhanced liquidityand economies of scale, reduction of risk, price discovery.**