



Other mechanisms for financial intermediation –Capital Markets-

Proposed Contents

1. Capital Markets

- Definitions of the Capital Markets.
 - Elements of the capital markets: stock market, corporate bonds, government securities, securitized mortgages, etc.
 - Are Capital Markets a mechanism, in strict sense, for financial intermediation or are Capital Markets an efficient mechanism for direct financing? What is then an appropriate definition for financial intermediaries?
 - The demand side of Capital Markets: individual customers vs. financial institutions, financial institution owned positions vs. positions on behalf of customers.
 - The specific risks undertaken by financial institutions acting as securities/stock underwriters.
- What are the growth drivers of Capital Markets?
 - The role of information improvements.
 - Costs: transaction costs and interest rates for security issuers.
 - Fashion. Entering into modern financing techniques.

2. Banking and Capital Markets

- The banking disinter mediation phenomenon.
 - Definition of disinter mediation: lower assets in relative terms, a smaller market share in the overall financial market, transformation of assets registered as “loans” to assets registered as “securities”, off-balance-sheet items vs. on-balance sheet items.
- What is the key role of banks in financing activities? Can this role be supplanted? What are the comparative advantages of banks vs. other financial intermediaries?
 - Asymmetric information problems: adverse selection, moral hazard, private production of information vs. information provided by the public sector.
 - Consequences of Capital Markets growth on financial stability.
 - The Central Bank: the impact on the mechanisms for the transmission of monetary policies.

3. Creating Deep and Efficient Capital Markets

- The importance of Capital Markets in the savings-investment process.
- Relationships between deepness, size, liquidity and efficiency of Capital Markets.
- Developing Capital Markets that contribute to economic growth.
 - Market infrastructure: payments and settlements systems, securities keeping, exchanges vs. OTC markets.
 - Regulation: rules governing the entrance, operation and exit of companies in the Capital Markets.
 - Critical mass to achieve deepness and liquidity: access to capital markets to investors and security/stock issuers, transactions permitted, minimum transaction amounts, Internet transactions, etc.
 - Information: price vendors, market makers, company reports, rating agencies, investment banks.
 - Internationalization: ADRs, quoting foreign securities in the local market.
- The role of the Central Bank, mutual funds, pension funds, insurance companies and other financial intermediaries.