Send your answers to the teacher via his e-mail : abdelkader.nouibat@univ-msila.dz

---

**Homework (2): Read the text and anwser the questions that follow:**

The International Financial Market is the place where financial wealth is traded between individuals (and between countries). It can be seen as a wide set of rules and institutions where assets are traded between agents in surplus and agents in deficit and where institutions lay down the rules.

The financial market comprises the markets *strictu sensu* (stock market, bond market, currency market, derivatives market, commodity market and money market), the institutions which work in them with different aims and functions (Central Bank, Ministry of Economy and Finance, etc...) as well as direct/indirect policies orientated to making the market the place (not necessarily a physical place and not necessarily ruled but regulated) where the exchange between surplus and deficit units is carried out as efficiently as possible.

With regard to policies, consideration must be given to those connected with monetary, fiscal and more structural policies, as well as those directly connected with the governance of the market itself. Governance in the financial market can be defined as a set of rules useful in interconnecting the agents who operate within it and the institutions. These rules define the market. Governance rules in a financial market can be defined at both a microeconomic and macroeconomic level.

At a macroeconomic level, governance is important for the financial market in order to define every single rule of the trading process: from those which regulate the stock exchange or the Over The Counter (OTC) trades to those which define who can join the market. Moreover, great importance is given to the market microstructure, where microstructure is understood as the set of rules that makes and defines the asset exchange price. This is a main point in allowing the market to function properly. The liquidity/thickness/depth of the market depends on the price formation rules according to which the asset is traded off.

At a microeconomic level, the steps to trade assets on the financial market are: *listing*, *trading*, and *post-trading.* The latter comprises *clearing*, *settlement*, and *custody*. From the market insiders' point of view, each of these steps needs to be defined in order to conclude the exchange at a time and price previously defined. Each step has its own rules that allow those who operate in the financial market to establish their own strategy with respect to their specific expectations. The traded asset returns are linked to the definition of these rules. Each market has its own rules that deal with the microstructure. Different markets have different liquidity and this depends on the micro-rules that they themselves have established. These rules are relevant both for (official) exchange trading and for the OTC trading.

**I. Read the Text and answer the questions below (8 points)**

1. What are the markets that comprise the international financial market?

2. How is the governance of the International Financial Market defined in the text?
3. Why is great importance given to the market microstructure?

**4. Say whether the following ate "True" or "False"?**

a. The liquidity /thickness /depth of the market depends on the price of U.S. stocks. ______
b. The steps to trade assets on the financial market are: listing, trading and post-trading. ____
c . The difference of liquidity in markets depends on macro-rules. _____
d. Expectations of market operators defines the strategies of these operators. ________
e. Post-trading comprises: *clearing*, *settlement*, and *custody.* ________

**II A. Synonyms: Read the text then find the words that are closest in meaning to: (3 points)**

Riches ( ); A valuable thing ( ); Regulations ( );
Exact meaning ( ); Shares that each stockholder posses ( ),
Pertinent ( ) .

**B. Opposites: Read the text then define the words that are opposite in meaning to: (3**

Poverty ( ); Shortage ( ); Disallow ( );
Outsider ( ); Indirectly ( ); Same ( ).

**III. Record the following so that the text makes senses (3 points):**

a. It comprises the markets *strictu sensu* (stock market, bond market, currency market, derivatives market, commodity market and money market).
e. The International Financial Market can be seen as a wide set of rules and institutions,
b. Governance in the financial market can be defined as a set of rules.
c. These rules can be defined at both a microeconomic and macroeconomic level.
d. where assets are traded between agents in surplus and agents in deficit.

**IV . Fill in the gaps with the appropriate words from the list below (3 points) :,**

***Eurobond, international business, exchange, facilitate, developed, MNCs.***

Due to growth in ( ) over the last 30 years, various international financial markets have been ( ). Financial managers of ( ) must understand the various international financial markets that are available so that they can use those markets to ( ) their international business transactions. The specific objectives of this chapter are to describe the background and corporate use of the following international financial markets: foreign ( ) market, Eurocurrency market, Eurocredit market, **(** **),** and international stock market.