Economic
Financial Institutions
The Definition of Financial Institutions

Financial institutions are establishments that render financial services or conduct financial transactions such as investments, loans and deposits for clients. Most people deal with financial services providers (i.e., financial institutions) almost on a daily basis on a regular basis. This is because every financial activities such as depositing money and getting loans as well as exchanging currencies are done through financial institutions.
There are two major types of financial institutions we shall be looking at in the cause of this lesson. These are- the Money Market and the Capital Market.

The Money Market

The money market has to do with the trading of every financial instruments with high liquidity and very short term maturities rates. It is said to be used by participants as a means to borrow and lend on a short term basis, with maturity periods that usually range from one day to half a year.

Functions of the Money Market

To finance trade: Commercial finance is made available to the traders through bills of exchange, which are discounted by the bill market.
To finance industry: The money market contributes to the growth of industries by helping to securing short-term loans for industry stakeholders so they can meet their working capital requirements through the system of finance bills, commercial papers etc.
Profitable Investment: Money market enables the commercial banks to use their excess reserves in profitable investment.

Instruments used in the Money Market

- Treasury Bills
- Federal Agency Notes
- Short-Term Tax Exempts
- Certificates of Deposit
- Commercial Paper
- Bankers' Acceptances
- Repurchase Agreements

The Capital Market

The Capital market is defined as the type of financial institution which provides money for periods longer than a year. Capital markets typically channel savers' monies to those who can put it to long-term productive use. These type of borrowers are usually companies or governments who desire to make long-term investments.

Functions of the Capital Market

1. The capital market helps businesses raise long-term funds for investment
2. The capital market provides opportunity for the public to invest their savings in attractive securities which provide a higher return.
3. A well developed capital market can easily attract foreign investment.

4. The activities of the capital market ultimately engenders economic growth.
5. Anyone can easily study the economic conditions of a country using the Capital market as a barometer of the economy.
6. Capital market provides opportunities for different institutions such as commercial banks, mutual funds, investment trust; etc., to earn a good return on the investing funds. They employ financial experts who are able to predict the changes in the market and accordingly undertake suitable portfolio investments.

Instruments used in the Capital Market

- Debt Instruments
- Equities (also called Common Stock)
- Preference Shares
- Derivatives