

MARKETS AND INSTRUMENTS

This chapter covers a range of financial securities and the markets in which they trade. Our goal is to introduce you to the features of various security types. This foundation will be necessary to understand the more analytic material that follows in later chapters.

We refer to the traditional classification of securities into money market instruments or capital market instruments. The **money market** includes short-term, marketable, liquid, low-risk debt securities. Money market instruments are sometimes called *cash equivalents* because of their safety and liquidity. **Capital markets**, in contrast, include longer-term and riskier securities. Securities in the capital market are much more diverse than those found within the money market. For this reason, we will subdivide the capital market into four segments. This chapter therefore contains a discussion of five markets overall: the money market, longer-term fixed-income capital markets, equity markets, and the two so-called derivative markets—options and futures markets.

We first describe money market instruments and how to measure their yields. We then move on to fixed-income and equity securities. We explain the structure of various stock market indexes in this chapter because market benchmark portfolios play an important role in portfolio construction and evaluation. Finally, we survey the derivative security markets for options and futures contracts.

