

Chapter 10: Capital Markets

Section 1.1: What is a Capital Market?

Imagine a giant financial bazaar where businesses, governments, and individuals trade money instead of mangoes or jeans. That's the capital market — where people and institutions buy and sell financial assets like stocks and bonds to raise money or grow their wealth.

There are two main sides here:

- **Suppliers of Capital:** People, banks, or investors who have extra money and want to earn a return (like interest or dividends).
- **Demanders of Capital:** These are companies, governments, or entrepreneurs who need funds to build factories, launch products, or pay for infrastructure.

Capital markets help move money from those who have it to those who need it, powering everything from startups to skyscrapers.

Section 1.2: How Do Capital Markets Work?

Capital Markets have two main parts.

- First is the stock market, which many of you may be aware of. This is where companies sell ownership shares (called stocks) to raise money. If you buy a share, you own a small piece of that company. Stocks can go up or down based on company performance and public confidence. Key terminologies that you should be aware of in regards to stock market is:
 - **IPO (Initial Public Offering):** Used to fund schools, roads, or defense.
 - **Dividends:** A share of profits paid to shareholders.
 - **Stock Exchanges:** Like the New York Stock Exchange or Dhaka Stock Exchange — where trading happens.
- Next is the bond markets which are equal if not more important. When a government or company sells a bond, it's borrowing money and promises to pay it back later with interest. Key terminologies important to this include:

- **Government bonds:** used to fund schools, roads, or defense.
- **Corporate bonds:** used by companies to fund growth.

As a rule of thumb, stocks generally carry more risk but offer higher potential returns, while bonds are safer but offer more stable, lower returns.

Section 1.3: Why Capital Markets Matter

Capital markets are not just playgrounds for the rich — they touch nearly every aspect of the economy and our lives.

The first reason they matter is because businesses rely on capital markets to grow. Without them, it would be much harder for companies to access large sums of money needed for innovation or expansion.

Pension funds, insurance companies, and even your personal savings may be invested in the capital market. Their performance can impact your future income and financial security.

Additionally, capital markets reflect the mood of the economy. Rising markets often signal confidence and growth, while falling markets can point to trouble ahead.

Lastly, for individuals, capital markets offer opportunities to grow wealth through smart investing. Over time, compound returns can significantly increase the value of investments.

Section 1.4: Fun Facts

- The world's oldest stock market is located in Amsterdam, which was established in 1602.
- Global capital markets handle over \$100 trillion in assets, with billions traded each day.
- Bonds are rated by agencies like Moody's or Standard & Poor's. An AAA rating means very low risk, while a junk bond has high risk but high potential return.