Chapter Review

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Any financial system can be analyzed on the basis of markets operating in it. Markets can be dealing in short or long term securities referred to as money markets and capital markets respectively. There are some fresh securities that are issued for the first time and there are some others securities that were issued somewhere in the past. This differentiation leads us to primary and secondary markets. The secondary markets allow the investors to change the nature of their investments from short term to long term and vice versa. These markets allow the securities to be traded at acceptable price for both buyer and seller. Investors prefer those assets that can easily be converted to cash. In other words, liquidity plays an important role in deciding which securities to invest in. The primary market securities are bought in anticipation that they will be sold quickly in the secondary market to take up cash. Governance refers to the ways in which an organization is formed, run and controlled. The basic aim of financial management is to maximize the wealth of shareholders. The modern theory is off the opinion that the firm should take into account the interests of all the stakeholders. This creates problems for the organization because the interests of certain stakeholders conflict with each other. The shareholders are the real owners of the company and managers are responsible to run the operations of the company. Managers will be interested in increasing their pays which will result in more salaries expenses and lesser dividends to be paid to the shareholders. This problem can be resolved by offering the managers stocks options plans. The Sarbanes Oxley act has been put in place to ensure that true and fair position of the company has been shown in the financial statements. This also requires that the financial statements are accompanied by a certificate signed by the CEO and CFO.