Financial Markets

[Name of Student]

[Name of institution]

**Answer 1**

Following are functions of financial markets:

Providing a platform to sellers and purchasers of securities to complete their transactions which is done by mobilizing the savings and providing more appropriate use of these resources. The financial resources in the form of savings are hoarded by people and these are used by organizations. Stocks and bonds are two major types of investment options available to people. For both buyers and sellers, financial markets provide ample opportunities to get the most suitable prices for their securities. The liquidity aspect of securities is explored in financial markets which means that there are many buyers and sellers for any security. Thus, financial markets provide opportunity to the people to convert their securities to cash. Financial markets provide all the necessary information for buying and selling securities. The availability of such information is free of cost for all parties involved (Samiksha).

**Answer 2**

There are two basic metrics to judge a bank’s capital aspects. Leverage ratios show the minimum amount of capital that a bank must hold relative to its assets. The risk weighted ratios show minimum amount of equity according to the riskiness of holdings. There has been a dangerous trend of letting the banks decrease their leverage ratios by 20%. Similar laws were passed to allow the eight largest banks to reduce their leverage ratios. Another aspect was the reduction in risk based capital surcharge. Since these two measures are related to each other, reducing the risk based surcharge will further reduce the leverage ratios. There were suggestions to implement strict capital rules after financial crisis. Excessive risk taking was blocked by using market discipline. Some politicians are of opinion that strict capital rules will result in a competitive disadvantage for the US banks (Bair, 2018).

**Answer 3**

A new systemic regulator was thought to be necessary as a result of 2007 financial crisis. The systemic risk regulation will create a financial services oversight council that will be headed by the secretary of treasury and the regulatory function will be assigned to the Feds by this council. The major function of this council will be to try and avoid any financial crisis from happening. A major problem is that meaning of systemic risk is not understood coherently by all people. A ‘too big to fail’ assumption does have considerable effects on the risk-taking stance of these companies because all the aspects related to some credit are affected by this assumption. The cost of credit for a financial institution and riskiness of assets pledged against the credit are all affected by this assumption. It is a complex task to make such laws which will regulate risk taking in the whole economy. A government cannot deploy agencies to oversee risk taking in the whole economy (Grochulski, 2009).

**Answer 4**

There is a consumer financial protection bureau formed under the Dodd Frank act. This act is not solely about financial services. Some significant aspects of this act relate to corporate governance. The financial and capital provisions are getting to headlines, there are some companies which are completing documents related to section 1502 of this act related to conflict of minerals. A fight between two parties was started because there was a conflict over the area where minerals were found. This act questions the presence of tin, tantalum and gold in their raw materials and asks the companies to improve their supply chains. Reporting the presence of minerals will force companies to review all their processes (frank, 2014).

**Answer 5**

My option will be to repeal the Dodd-Frank act and replace it with CHOICE act which is Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs. This act will replace title II of Dodd Frank act that was basically concerned with liquidation provision and provides a process guided by government for banks facing bankruptcy. There will be a bankruptcy code that will be specifically targeted at larger financial institutions. This act will also eliminate title IV of Dodd Frank act which empowers the Financial stability Oversight Council to impose more regulations on banks. The fiduciary rule available in all other provisions will also be removed. Despite these changes, the higher capital requirements for banks should be kept in place. The Volcker rule for large banks which are important part of the overall system should also be kept in place (CFA institute, 2017).

**Answer 6**

The society would be better off if the financial sector is much smaller and receives much lower returns. For the supporters of the left, a political strategy based on cutting the size of financial sector is the best option to take on. This will also ensure that there is a better distribution of wealth and power among the people in society. The financial sector is performing a bullshit business because any efforts made by law makers to improve the distribution of wealth and power bring them into a direct conflict with the financial sector. The major problem is that the financial sector has not been making a considerable contribution towards the betterment of society despite the transfer of huge amounts of money to the sector. An option to distribute income in a better way without disturbing the structure of financial sector is to implement progressive taxation in its true sense (Qulggin, 2013).

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