

Name _____

Money Magic: Investment Banking and Capital Markets

Open-Ended Response Answer Key

1. To expand my small business by issuing stocks, I would follow these steps with the help of an investment bank: Select an Investment Bank, Due Diligence, Determine Stock Details, Regulatory Compliance, IPO (Initial Public Offering), Listing, Benefits
2. When choosing bonds to invest in, I would consider factors such as the issuer's creditworthiness, the bond's interest rate, maturity date, and the purpose of the bond. I'd also assess the overall economic environment and interest rate trends. The bond market works by allowing entities, such as companies or governments, to borrow money by issuing bonds to investors. Investors buy these bonds, receiving periodic interest payments and the return of their principal at maturity. Bonds provide a steady income stream and are considered less risky than stocks.
3. Investor protection is crucial in capital markets to maintain trust and fairness. Regulatory bodies, such as the Securities and Exchange Commission (SEC), play a vital role in achieving this. They enforce rules and regulations that require companies to disclose accurate financial information and other material facts. They also monitor trading activities to prevent fraud and market manipulation. Regulatory bodies ensure that investors have access to timely and relevant information, promoting transparency. They also enforce penalties for violations, holding companies and individuals accountable for unethical or illegal behavior, which ultimately fosters a fair and transparent environment.
4. Governments use the bond market to raise funds for public projects, such as infrastructure development or healthcare initiatives. They issue bonds to investors, who provide capital in exchange for regular interest payments and the return of their principal upon bond maturity. This approach benefits governments by allowing them to fund essential projects without immediate tax increases or budget constraints. It also provides stability in economic downturns when government bonds are considered safe investments. For investors, government bonds offer a reliable source of income and a lower-risk investment option. Governments use the bond market as a tool for fiscal management and economic growth while offering a secure investment opportunity to individuals and institutions.

