**Chapter 1**

**Lecture Topics**

**1. What is finance?** Finance in its broadest terms is the study of how and under what terms savings (money) are allocated between lenders and borrowers. The key phrase in the above definition is *allocated*, and some will recognize the similarity with economics, which studies how scarce resources are allocated in an economy. This similarity is not an accident, since finance in many ways is closely related to economics. However, finance is distinct from economics, since it is not just about how resources are allocated, but also under *what terms* and through *what channels*.

**2. Financial system.** In Canada, the household sector is the primary provider of funds to business and government, with the non-resident sector traditionally being net providers of funds, despite the fact that all three domestic sectors do invest outside of Canada. The basic financial flow is “intermediated” through the financial system, which is comprised of: (1) financial intermediaries (hard box), who transform the nature of the securities they issue versus what they invest in; and, (2) market intermediaries, who simply make the markets work better. The whole package of institutions is the Canadian financial system.

**3. Financial instruments, financial markets and global financial markets**. Financial assets are formal legal documents that set out the rights and obligations of all of the parties involved. The two major categories of financial securities are debt instruments and equity instruments. Financial markets permit the issuing and trading of these financial instruments, which include primary markets and secondary markets. In addition to the domestic financial markets discussed above, global financial markets represent important sources of funds for borrowers, and provide investors with important alternatives.