2.13 Financial Markets: Structure, Functions and Types of Asset: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Write full sentences for the extended 25-mark essay only. A calculator is not required.

1 Define the capital market in the UK context and give one clear example of an instrument traded there and its purpose.

(Total for Question 1 is 2 marks)

2 Define the foreign exchange market (forex) and state one of its functions in supporting international trade settlement and currency conversion.

(Total for Question 2 is 2 marks)

3 Distinguish between the spot foreign exchange market and a forward foreign exchange contract, and state one consequence for a firm choosing a forward rather than a spot transaction.

(Total for Question 3 is 3 marks)

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Mark scheme · 2.13 Financial Markets: Structure, Functions and Types of Asset: 10-minute Pack

Question 1

a market for medium to long-term finance, where firms and governments raise capital through instruments like equities and long-term bonds **B1**

valid example: shares listed on the London Stock Exchange, used by firms to raise equity finance **B1**

Answer: A market for medium to long-term finance trading equities and long-term bonds; example: shares on the London Stock Exchange, used to raise equity finance.

Question 2

a market for buying and selling different currencies, where exchange rates are determined by supply and demand **B1**

function: to convert one currency into another so importers and exporters can settle cross-border payments, and to facilitate currency risk management **B1**

Answer: A market for exchanging currencies where exchange rates are set; it enables conversion of payments for imports and exports and helps firms settle international trade.

Question 3

spot forex is immediate exchange of currencies at the current market exchange rate **B1**

a forward contract locks in an exchange rate today for a currency exchange at a specified future date **B1**

consequence: using a forward removes exchange rate risk but may prevent benefiting from a favourable spot rate movement **B1**

Answer: Spot forex exchanges currencies immediately at the current rate; a forward locks in a rate today for a future date. Forwards remove exchange rate risk but stop a firm from benefiting if the spot rate moves favourably later.

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