**One Response:**

Role of Participants in capital markets

Capital Market is the market from where individuals, companies and govt. can long term financing by engaging in buying and selling of securities. Capital Market comprises of Primary Market and Secondary Market. In primary market, newly issued stocks and bonds are exchanged and in the secondary market trade of existing stocks and bonds take place.Capital Market can be divided into Bond Market and Stock Market. In Bond Market, buying and selling of newly issued and existing bonds takes place. In Stock Market, exchange of newly issued and existing shares or stocks is carried out  (EconomyWatch, 2010).

To efficiently to facilitate the capital markets, there are participants. An example of these participants includes the stock exchanges, brokers, debentures trustees, venture capital funds and the government among others. They play a paramount role in the organization including the issuing of the securities in the capital markets, they act as the financial intermediaries such as the commercial banks, and they invest in the capital market (Investopedia, n.d). The government, as a significant direct participant enters into agreements which aid in hedging specific financial risks, such as the foreign exchange exposures related to the purchases of the fixed assets. It also engages in portfolio risk transformation activities through the use of various derivatives such as primarily foreign exchange and also the interest rate forward or futures and also swaps  (EconomyWatch, 2010).

To enhance efficient risk transformation, the government helps all to understand how to view the risks associated with their portfolio. It also establishes and embeds risk appetite through risk demystification hence incorporating risk strategy in the planning and the decision-making strategies.

**Two response:**

How participants would interact to facilitate capital market activities?

       For example, a company wants to rise its capital by issuing stock. The company issuing the stock on the capital market. investors, financial institutions, and brokers etc. will buy it. That will add more cash flow in the capital market. They use cash flow to buy the stock. And the company use the cash to pay the dividend. This is a positive cycle. More cash flows add into company assets to help the company do more investments, expand its product markets, or innovate new products etc. That will lead the company be stronger and more active in the capital markets. Also, a stronger company can bring more dividend to the investors. The investors will get the initial capital back and some dividends. On the other hand, the company stock can be trade in the secondary market. If the company’s stock has higher demand and some holders want to get the cash in a short-term, the holders can sell the company’s stock in the secondary market. The higher demand of this stock and the trade of this stock will stimulate the change of price of this stock. In the primary market, there are investors and companies who issued securities. That will help the company gets the cash in a short-term to help the company grow up. And, some investors can get benefit from the trade. In the secondary market, there is all investors. They trade the securities for their own benefits. That can influence the stock market. It may lead the value of company goes up or down.

**My response:**

A company that is going through an acquisition is one whose assets or shares are being bought by another company, which then acquires more than 50% of the ownership. A company may seek to acquire the stock, shares or assets of another company for reasons such as having an economy of scale, reduce stiff competition and generally expand.

Changes in interest rates affect the price that a company is willing and able to pay, in order to acquire another company.  When the Federal Reserve increases the interest rates, the price of loans to finance deals also increases. Therefore, there is less money available, to pay the company that is being bought or acquired. If the company is not willing to accept low amounts of money, deals will be slowed down or canceled altogether. When the Federal Reserve reduces interest rates, the cost of borrowing finance loans goes down. Hence there is more money available to pay the company being bought out. Hence acquisition deals go through at a high rate.

Generally, an increase in interest rates will discourage potential investors from acquiring other stock in the capital market. The speculators, who buy and sell stock, will also be discouraged since most of them operate on financial loans, Market makers, which are intermediary banks or brokerage firms, are also affected in that, many investors will shy away from acquiring loans from them due to the increased cost of borrowing. A decrease in interest rates will encourage investors to make more acquisitions since the price on finance loans will have gone down. Speculators will engage more in buying and selling stock while market makers will gain profits since many investors will be borrowing from them, due to the reduced cost of borrowing.

An example of an acquisition that took place recently was when Google bought part of the Motorola Mobile Team. By then, the interest rates were quite stable hence good for the business deal, which went through successfully.