

## “The Role of Financial Market in the Growth of Economy”

Jo'rayev Og'abek Oybek o'g'li

The Student of TSUE

ogabekjorayev081@gmail.com

### Abstract:

The financial market is utmost fundamental for the growth of the economy. Financial markets are essential for the efficient resource allocation, liquidity provision, and risk reduction through diversification that occurs in capitalist economies<sup>1</sup>. A well-functioning financial market can improve capital allocation, mobilize savings, and promote investment. This article discusses the critical role played by the financial market in the growth of the economy.

### Introduction

In the world of finance, there are people who are in need of money considered as borrowers and individuals who have surplus of funds called lenders. Financial market is a type of intermediary which make these preceding mentioned two meet. A diverse kind of securities are sold and bought including bonds, stocks and ETFs here. Both who sold and bought the financial instruments can get advantage of this activity, the former by taking monetary asset and the latter can get profit by either selling in much more expensive price or in situation that stockholders can get dividends and bondholders are capable of taking timely coupons. To elaborate more, let's take businesses as an example, when they have a lack of money, they have two options, borrowing from a bank or issuing stocks and bonds. The stock market which is just one type of financial markets allows companies to access capital and raise funds to invest in their business. This capital can enhance their growth, increase production capacity, or develop new products, which leads to economic growth. This is one of the financial market's primary roles known as efficient allocating assets. Participants in the financial market also decide on the required return on the investors' invested capital in addition to setting the prices along which the financial

---

1. <https://www.investopedia.com/terms/f/financial-market.asp>

instruments trade. Depending on the required rate of return that investors want, those who are looking for money have different motivations. Because of this function of the financial market only, it is signaled that funds available from the lenders or the investors of the funds will get allocated among the persons who need the funds or raise funds through the means of issuing financial instruments in the financial market. So, the financial market helps in the mobilization of the investors' savings<sup>2</sup>. Actually, traditional savings accounts pay very low-interest rates,



but the stock market offers higher returns. This encourages individuals to invest their money in the stock market, which helps mobilize savings and channel them into productive investments. If there are more investments, there will be development of projects in companies. This, in turn, promotes the economic growth of a country. Another critical role of the financial market is to reduce risks through diversification. Investors don't put all eggs in one basket. Diversification helps mitigate risks by investing in multiple assets or companies. Mutual funds, exchange-traded funds (ETFs), and other investment vehicles diversify investors' portfolios and minimize risks, in this case investors even don't need to worry about investing, they just should pay some fee and those vehicles of investment carry out the duty themselves. By diversifying investments across sectors or industries investors are about to have minimum potential of failure because they don't lose their entire investment due to one company or sector's poor performance. The financial market also provides liquidity, which allows investors to buy and sell securities quickly and easily. Liquidity helps to create efficient markets, as it allows buyers and sellers to meet and trade securities at a fair price. The stock market provides a platform where investors can buy and sell securities, which facilitates liquidity. In case there is no liquidity function of the financial market. The issuer of the security is contractually obligated to pay for the asset at the time of maturity in the case of a debt instrument, or at the time of the company's liquidation in the case of an equity instrument. The investors are compelled to hold the financial securities or financial instrument \_\_\_\_\_

2. <https://www.wallstreetmojo.com/functions-of-financial-markets>

until the market conditions arise to sell those assets. Thus, investors can sell their securities readily and convert them into cash in the financial market, thereby providing liquidity. If there is high liquidity the participants of financial market can make sure about their financial securities. Ultimately, a well-functioning financial market leads to job creation through the expansion of businesses and the demand for financial services. The financial market also creates jobs by generating demand for financial services, such as investment banking, portfolio management, and accounting. Providing many skillful people, financial market impacts profoundly well on the economy because this would somehow reduce the level of unemployment which is believed to be one of the weighty problems of the macroeconomics of the country. To take real life example, in New-York stock exchange which is one of the world's largest marketplaces for securities and other exchange-traded investments more than a billion financial instruments are traded a day. According to the NYSE<sup>3</sup>, the total market capitalization of NYSE-listed companies was approximately \$28.5 trillion as of May 2021. This represents a significant source of funding for companies, which allows them to invest in research and development, expand their operations, and create jobs. Companies that are listed on the NYSE are required to comply with regulations and reporting requirements that provide transparency to investors and maintain market integrity. This represents a significant contribution to employment and the overall GDP of the country. Serving as a facilitator of domestic and global investments, the NYSE promotes diversification and risk management amongst investors. By providing investors with a platform to purchase stocks in companies of varying sizes and industries, the NYSE helps investors allocate their funds efficiently. Furthermore, the NYSE



acts as a vital source of liquidity, permitting shareholders to sell their securities with ease. This feature allows for the market's efficient functioning while ensuring its stability during times of crisis. Also, the NYSE provides a framework for mergers and acquisitions, resulting in improved operational efficiencies and overall USA's \_\_\_\_\_

3. <https://www.nyse.com>

economic growth. In conclusion, it can be observed that the financial market plays a significant role in the growth of the economy, highlighting the importance of maintaining its effectiveness and efficiency by mobilizing savings, liquidating the financial assets and hedging risks for the sake of diversification and creating more job opportunities.

