Chapter three:
Financial markets

Preview

Financial markets are crucial in the financial system, serving as an effective intermediation institution connecting savers and investors. They enhance the resilience and efficiency of the financial system by linking depository and non-depository financial institutions, allowing investment of pooled funds with appropriate returns.

1. Concept, functions, and types of financial markets

1.1. Financial markets concept

Financial markets, characterized by their intricate roles and evolving functions, have been extensively defined, with their most significant aspects being their financial stability and growth. Among the definitions given are

- Financial markets serve as a crucial communication tool between savers and investors, connecting savings and investment through specialized technical tools and institutions. They enable surplus funds to be accessible to investors, including individuals, institutions, and governments, who own investment opportunities and require finance.[1]
- Financial markets are systems where sellers and buyers combine for securities or financial assets, allowing investors to sell and buy shares and bonds through brokers or companies. As telecommunications companies grew, the importance of being in financial markets decreased, allowing for intensified off-market interaction with brokerage companies. Transactions take place in both official or organized markets (exchanges) and parallel or unorganized markets (over-the-counter).[2]

1.2. Financial markets functions

Financial markets play a crucial role in addressing new economic and technological needs, generating new functions to stimulate economic development and satisfy existing needs, including:

- Financial brokerages leverage economies of scale and experience to attract small investors, enabling them to achieve higher returns at low costs, benefiting development and reducing inflation.[3]
- The initiative aims to decrease inactive savings and hoarding by enabling investment opportunities with high returns, thus reducing banks' dominance in national savings and their employment.[4]

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[1] Tijani Najeh, ***Monnaie, Institutions Financières et Politique Monétaire: Théorie et Pratique en Tunisie***, Imprimerie Officielle de la République Tunisienne, 2001, p.67.

[2] Abdulghafar Hanafi, ***Investing in Securities: Stocks-Bonds-Investment Documents-Options***, Elder Elgamaya, Egypt, 2000, p.37.

[3] Mohamed Kamal Abu Amcha, ***Investing in Gulf Capital Markets and Their Role in Attracting Foreign Investments***, The Arab Journal of Economic Research, N° 61-62, Spring 2013, p.79.

[4] Panicos O.Demetriades, ***Financial Markets and Economic Development***, Egyptia, The Egyptian Center for Economic Studies (ECES), working paper N°27, June 1998, p.12.

- Direct financing allows governments and institutions to obtain funding through bond and share issuance, contributing to productive investments and increased production and national income. This leads to improved economic development. Investors aim to maximize profit by covering funding costs, motivating them to direct investments to efficient uses. Advanced financial markets offer long-term liquidity for productive investments, eliminating the hesitancy of savers to cede their savings for long-term investments. Fast and low-cost securities liquidation eliminates the need for long-term savings issuance, linking savers to long-term investments.
- The principal/agent problem is addressed by linking corporate managers' performance to stock market price movement, encouraging them to enhance their efforts and achieve optimal results.[5]
- Valuing companies and projects where financial markets significantly reduce the asymmetric information problem and capitalize on free riders by publishing all information, reports, and indicators can help investors understand a company's real status, impacting equity prices and urging the company to adjust policies for further financing.
- Financial markets play a crucial role in attracting foreign investments and reducing external borrowing. They provide necessary financing for both domestic and foreign investment activities, maintain stability and development of investments, and ensure liquidity of traded securities. Financial markets also supervise listed companies by requiring periodic and structured reports, ensuring the safety and profitability of investments.[6]
- The goal is to minimize the loss of national capital abroad by offering a secure and profitable means to absorb this capital.[7]
- Financial markets significantly contribute to the sustainability of companies' activities by promoting the introduction of self-financing and permanent, stable financing, which integrates with bank financing. This positively impacts external debt burdens and long-term financial balance, enhancing competitiveness and sustainability.
- Efficient financial markets are crucial for privatization programs, as they enable the real valuation of companies' assets and bring shares to realistic prices, contributing to the success of these processes and improving the performance of public enterprises.[8]

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[5] Mohamed Kamal Abu Amcha, ***Investing in Gulf Capital Markets and Their Role in Attracting Foreign Investments***, op.cit., p.79.
[6] Chaker Atallah, ***Financial Market: the Tunisian Experience***, Imprimerie Tunis Carthage, Tunisia, 2007, p.13.
[7] Mohamed Kamal Abu Amcha, ***The Importance of Developing Financial Markets in Member States of the Cooperation Council of the Gulf***, The Arab Journal of Economic Research, N° 55-56, Autumn 2011, p.135.
[8] Chaker Atallah, op.cit., p.13.

- Securities are essential tools for wealth preservation and development, like cash. They are held and retained until liquidated, and due to their distinctive characteristics, they are neither depreciated nor eroded over time. Some securities generate profits, increasing their value and growing the wealth of their holders.
- Financial institutions facilitate access to the borrowing market through financial instruments like stocks and bonds, enabling owners to borrow against their mortgages.
- Financial instruments facilitate payments and exchange development, promoting smooth clearance and encouraging internal and external transactions due to their widespread acceptance across various markets.
- Financial markets not only facilitate financing access but also reduce investment risk through financial derivatives, allowing diversification and hedging. The multiplicity of financial markets and instruments allows investors to diversify their investment areas, avoiding the risk of investing in a specific instrument or market. The development of financial markets and their openness to each other, along with innovative financial instruments like derivatives, has provided investors with opportunities to hedge against future declining returns.[9]
- High-liquidity financial markets reduce investment risk by enabling quick and low-cost stock and bond adjustments, accelerating asset turnover, and increasing market efficiency by allowing savers to adjust their investment portfolios.
- Improving financial markets positively impacts other financial institutions by offering services and investment opportunities that boost asset returns, thereby increasing profits and market value.
- The use of listed companies' stock offering financing can enhance their resource efficiency and human resource productivity, leading to increased market value and easier access to future financing, thus enhancing their overall effectiveness.[10]
- Financial markets are crucial for central banks to effectively implement monetary policies, enabling them to anticipate economic shocks and future activity and inflation rates. They are essential for predicting economic shocks and adjusting monetary policies quickly, as open market operations cannot function without them. Financial markets are preferred for measuring market expectations and reactions to monetary policies.[11]

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[9] Ziad Ramadan & Marwan Shmout, ***Financial Markets***, United Arab Company for Marketing & Supply, Egypt, 2008, p.10.

[10] Panicos o.demetriades, op.cit., p.12.

[11] Mohamed Kamal Abu Amcha, ***The Importance of Developing Financial Markets in Member States of the Cooperation Council of the Gulf***, op.cit., p.141.

- The process involves evaluating the performance of companies by analyzing their equity prices and providing a fair evaluation of their actual value.[12]
- The goal is to enhance financial awareness and investment among individuals and institutions, while enhancing transparency in information about listed companies' performance and the economy as a whole.
- Financial markets, facilitated by economic openness and media development, enable economies to leverage international finance by establishing global relations with financial and business centers.[13]

1.3. Types of financial markets

Financial markets have emerged due to the need for investment opportunities, finance, and economic efficiency improvement. These markets can be divided into various types based on various criteria, ensuring a comprehensive understanding of the financial landscape.

1.3.1. Division according to the securities traded:

➢ **Money Market**: The money market is a short-term credit instrument market with a maturity of less than a year, offering high liquidity and flexibility due to its short investment period and low levels of money and credit risk. This market allows for the liquidation of assets without high costs, reducing the risk of sudden declines in securities prices.

➢ **Capital market**: The capital market is a crucial financial sector that facilitates transactions on medium- and long-term financial assets with maturities exceeding a year. It offers advantages for both sellers and buyers, creating suitable channels for investment and achieving rewarding returns. Managers of capital markets work to achieve liquidity for invested funds in various forms, such as shares and bonds, ensuring the national economy's interest is served.[14]

1.3.2. Division according to issue type:

➢ **Primary market (initial issues market or subscription):** The primary market is crucial for companies and governments to introduce new securities for subscription before trading. To ensure success, companies must consider factors such as the size, timing, security type, and marketing methods when choosing the appropriate size, timing, and security type for their issuance. This market is crucial for financing investment operations.[15]

➢ **Secondary market (trading market or stock exchange):** The secondary market, also known as a trading market or stock exchange, is a market where securities can be exchanged between parties on specific trading floors. The primary motives for investors in this market are liquidity, which encourages them to use their excess

[12] Nazhan Mohamed Su, ***Securities Markets in the Wake of the Current Global Economic Crisis***, Damascus university journal for the economic and legal sciences, Vol 26, N°02, 2010, p.658.
[13] Mohamed Kamal Abu Amcha, ***The Importance of Developing Financial Markets in Member States of the Cooperation Council of the Gulf***, op.cit., p.141.
[14] Nadia Abu Fakhra & Mahmoud Sobh & Shamel Al-Hamoui, op.cit., p.16.
[15] Munir Ibrahim Hindi, ***Securities and Capital Markets, Securities and Capital Markets***, Monchaat Al Maaref, Egypt, 1999, p.92.

liquidity by purchasing and selling securities during liquidity shortages, and information, which allows them to make extraordinary profits or avoid losses by utilizing exclusive information about specific securities.[16]

1.3.3. Division according to market transaction regulation:

- **Organized markets:** Organized markets are managed by a higher authority, the market authority, which ensures fair competition and prevents fraud. These markets must have specific conditions, such as securities trading conditions, a specific place for trades (stock exchange hall), working times, and intermediaries who are subject to the terms and laws of the exchange. Legislation and laws mandate these markets to have a set of conditions, such as conditions for securities trading, a specific working time, and the presence of intermediaries.[17]
- **Unorganized markets:** Unorganized markets, also known as over-the-counter or parallel markets, trade unrestricted securities in short selling, primarily bonds, outside the stock exchange. These markets rely on modern and fast communications networks to connect investors, financial intermediaries, and traders. There is no specific place or rules for operations, and unorganized markets provide essential services to customers and ensure the marketing of new securities issuances due to their simplicity.[18] Their ample liquidity allows for quick and unlimited liquidation of securities, outperforming organized markets.[19]

1.3.4. Division according to the time of execution of transactions:

- **Spot markets**: Spot markets involve transactions being liquidated directly, with sellers receiving the price of securities from buyers immediately after they deliver the securities.
- **Forward markets**: Forward markets are financial systems that postpone the delivery and payment of securities to a later date, unlike spot markets. To ensure execution, traders in forward markets must pay insurance amounts depending on the transaction type.[20] These markets are created as a hedging method, providing buyers and sellers with a cover to reduce the risk of future price changes causing losses to their savings and investments. Derivatives are the most prominent financial instruments in forward markets.[21]

2. Instruments traded in the financial markets

Financial markets have introduced various instruments to cater to the needs of all market parties, including prominent instruments that have emerged in response to economic development.

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[16] Ziad Ramadan & Marwan Shmout, op.cit., p.88.
[17] Ibid, p.16.
[18] Munir Ibrahim Hindi, ***Securities and Capital Markets, Securities and Capital Markets***, op.cit., p.106.
[19] Salah al-Din Hassan El-Sissi, ***Theoretical and Applied Studies: Arab and International Securities Exchanges and Establishment of the UAE Stock Exchange***, First Edition, Dar El Wissam, Lebanon, 1998, p.15.
[20] Ibid.
[21] Ziad Ramadan & Marwan Shmout, op.cit, p.19.

2.1. Instruments traded in money markets

2.1.1. Negotiable certificates of deposit (CDs): The money market is a significant market for monetary instruments, with negotiated certificates of deposit (CDs) being the most prominent security traded. Commercial banks issue these certificates to attract funds and increase liquidity. [22] CDs come in various values and maturities, with a maturity of less than a year. They offer investors higher interest rates than savings accounts, liquidity before maturity, and a guarantee from the central bank. They are widely traded in secondary markets.[23]

2.1.2. Commercial papers: Commercial papers are fixed-income investment instruments issued by major banks and reputable companies, with discounts similar to treasury bills.[24] Their value has steadily grown in the United States since the 1970s, surpassing 3000% in 1970-1999, with financial intermediaries and companies being the largest holders.[25]

2.1.3. Treasury bills: Treasury bills are government debt instruments that are subject to subscription to balance public finances. They are offered for sale by central banks on behalf of their governments at discounted prices in electronic auctions. Companies, governments, and financial institutions are prominent investors in Treasury bills due to their liquidity and risk-free nature.[26]

2.1.4. Private short-term bonds: Private short-term bonds, issued by private companies and corporations, are a short-term financing tool traded in the monetary market, with higher default risk compared to government bonds and relatively high interest rates.[27]

2.1.5. Banker's acceptances: Banker's acceptances, a type of negotiable bank withdrawal, have been used in international trade transactions for centuries. These acceptances, issued by companies and individuals, are guaranteed by banks at the stamp of "accepted" and require payment if the original issuer fails to meet its obligations within agreed deadlines. They address liquidity issues among individuals and institutions and are widely accepted by traders to settle transactions without the need for funds transfer. Acceptances can be kept and received upon the due date or sold on the secondary market at a discount, similar to treasury bills.[28]

2.1.6. Repurchase Agreements (Repo agreements): Repo agreements are short-term loans with a maturity period of less than two weeks, where a borrower sells a quantity of treasury bills to a lending buyer, with the obligation to repurchase them at a later date at a higher price.[29] Central banks use these agreements to adjust interest rates and provide market liquidity, or vice versa, as they ensure the lender is entitled to acquire the treasury bills in case of default.[30]

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[22] Frederic S. Mishkin, op.cit., p.26.
[23] Aouadi Naceur, ***Les marches de capitaux en Tunisie,*** Editions C.L.E, Tunisie, 2002, p.59.
[24] Ziad Ramadan & Marwan Shmout, op.cit., p.55.
[25] Frederic S. Mishkin, op.cit., p.26.
[26] Aouadi Naceur, op.cit., p.63.
[27] Chaker Atallah, op.cit., p.133.
[28] Frederic S. Mishkin, op.cit., p.27.
[29] Ibid.
[30] Issam Abdelghani Ali, ***Principles of Finance, Facilities Management, and Financial Markets***, Nas Law Company, Egypt, 2004, p.298.

2.1.7. Federal Funds: Central banks have introduced a one-night interbank lending and borrowing market to help banks meet their reserve limits. This system allows banks to borrow from other banks using an electronic money transfer system. The market's high interest rates indicate the need for large banks to borrow for financing, while lower prices suggest a decline in banks' need for funds due to reduced economic activity.[31]

2.1.8. Short-term bills: Short-term bills are a negotiable credit tool where the borrower agrees to repay borrowed money with interest at a specific date, which they can then hold or sell to a third party at a specific discount.[32]

2.1.9. Eurodollars: Banks outside the United States and foreign banks have been attempting to attract the dollar due to its stability in international transactions. They allow clients to open dollar deposit accounts, pay interest, and are obliged to refund dues in the same currency. U.S. banks have also borrowed dollars from other banks or offshore branches to finance lending activities, trading in both domestic and international currency markets.[33]

2.1.10. Short-term Eurobonds: These bonds are issued in the form of a negotiable bearer's bond for a period of one week to one year.[34]

2.2. Instruments traded in capital markets

2.2.1. Long-term Bonds: Long-term bonds are contractual agreements between two parties for a fixed period of over one year, with the first borrower paying the second lender interest. The bond's depreciation occurs at the end of the period. The holder may receive periodic interest, plus the nominal value, or fixed and periodic installments including interest and part of the nominal value. The holder may also receive equal shares of the bond's asset, not concessional interest. Bonds are divided into various types:

➢ **Government bonds (sold at a discount) and corporate bonds**: Government bonds are sovereign bonds issued by the government to finance economic development operations or meet budget deficits or emergencies. They are issued at a discount and have medium or long maturities, ranging from a few years to several contracts. Issuance is done through direct public offering, stock exchange offerings, or through banks. Government bonds are free of risk and offer low interest rates due to the government's ability to meet its obligations. They also enjoy high liquidity and are exempt from taxes. Corporate bonds are issued by financial institutions, shareholding companies, or commercial, industrial, and service companies to finance their projects. They are mostly guaranteed and issued at higher interest rates but are more exposed to risks of the issuers' inability to meet the debt and its annual interest. Both government bonds and corporate bonds offer a high degree of liquidity and are exempt from taxes.[35]

➢ **Bearer bonds**: Bearer bonds are fixed-income security investments owned by the holder, or bearer, rather than a registered owner. They come with coupons for interest payments attached to the security, which the holder must submit to a bank for

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[31] Frederic S. Mishkin, op.cit., p.27.
[32] Mahmoud Younes & Kamel Amine El-Wassal, op.cit., p.91.
[33] Ibid.
[34] Ziad Ramadan & Marwan Shmout, op.cit., p.57.
[35] Ibid, p.112.

payment and redeem when the bond reaches maturity. Bearer bonds are typically nominal, with payments of a fixed amount, unlike nominal bonds, which have a fixed real value. In cases of bond theft, the holder can obtain the bond's value or interest.[36]

➢ **Secured bonds and unsecured bonds**: Secured bonds are guaranteed by the mortgage of the issuing company's assets or securities, or by an external body. They give the holder the right to claim the specific guarantee when the issuing company is unable to satisfy the nominal value of the bond and its interests or when the company is liquidated. Bondholders can dispose of these assets and fulfill their rights if the sale value is greater than their debts, or if the value derived from the sale is lower, they become ordinary creditors. Unsecured bonds, also known as ordinary bonds, are bonds without any mortgage to their owner, with the actual guarantees being the total assets of the issuer and its financial position).

➢ **Callable bonds and non-callable bonds**: Callable bonds, issued by the issuing company, can be recovered before the bond period's expiry, usually with a recall premium. The bondholder receives the bond value and all interest due. However, the issuer cannot claim the bonds back before their postponement date, as these bonds are the majority of bonds issued and traded in markets.

➢ **Convertible bonds and non-convertible bonds**: Bonds are a crucial part of the financial market, providing various advantages to all parties involved. Convertible bonds allow their holders or issuers to convert the bond into shares at a fixed rate or through a market value calculation. This allows investors to convert the bond's value and returns into ordinary shares in the issuing company.

Convertible bonds are popular among investors, as they offer advantages such as lower interest rates than ordinary bonds, which benefits companies in the growth phase. Additionally, convertible bonds avoid the risk of dumping and provide capital gains from expected increases in the share's market value over the transfer price.

Intermediaries benefit from convertible bonds, as they can trade in ownership with a low margin required for speculation in the financial market, which is usually less than that required for equities. This allows them to achieve significant capital gains by dealing with them in the secondary market.

In contrast, non-convertible bonds are the most common form of lending; they were originally non-convertible but have the special advantage of being convertible. These bonds allow investors to obtain capital gains from the expected increase in the share's market value over the transfer price while also protecting them from capital losses due to the security provided by the bond.

➢ **Fixed-rate bonds and floating-rate bonds:** due to the security provided by the bond.

➢ **Fixed-rate bonds and floating-rate bonds:** Bonds can be classified into fixed-rate bonds, which have a consistent interest rate over their duration, and floating-rate bonds, which are influenced by interbank loans or inflation. Fixed-rate bonds are typically invested in due to their resistance to changes in interest rates and inflation.

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[36] James Chen, ***Bearer Bond: Definition, How It Works, and Why They're Valuable***, 20/07/2021, consulted on 18/07/2025, at https://www.investopedia.com/terms/b/bearer_bond.asp

Floating-rate bonds, on the other hand, are adjusted based on factors like interbank loans or inflation and are typically adjusted monthly, quarterly, or annually.

- **International bonds**: These bonds are issued in different currencies for acquiring foreign currencies.[37]
- **Perpetual bonds**: These bonds are issued with no maturity dates; buyers who purchase this type of bond receive interest all the time, whether on a semi-annual or annual basis or as specified in the bond.[38]
- **Zero Coupon Bonds and coupon bonds**: Zero coupon bonds are U.S. treasury bills sold at a value below the nominal value, with the holder only recovering the nominal value upon maturity. They do not pay interest but offer a discount on the bond's face value. On the other hand, coupon bonds are bearer bonds with vouchers for interest claims.
- **Income bonds**: Income bonds are securities that guarantee the holder's interest only in the case of yields and are not offered for sale as new financing. They are issued at the official restoration of the exchange of securities. However, some prospectuses may allow bondholders to earn profits despite the lack of profits, as the interest distributed is deducted from the dividend of subsequent years.
- **Junk bonds (high-yield bonds) and investment grade bonds**: Bonds, such as junk bonds and investment-grade bonds, are low-quality securities with high risk. They are created to finance board members' ownership of a company's capital by issuing bonds that buy a large part of their traded shares. However, this would result in a significant increase in borrowed money to owned money, making the investment risky and requiring a high coupon rate to offset these risks. High interest rates are awarded on these bonds due to the client's higher risk of investing in them, such as default risks.[39] Investment-grade bonds, issued by entities with high credit ratings, have low interest rates due to the liquidity or profits earned annually and the company's ability to pay the bond value and interest.[40]
- **Participating bonds**: These bonds are hybrid bonds that have some equity qualities, allowing the holder to earn an additional profit if the exporting company makes a profit.[41]
- **Electronic bonds**: unlike other bonds, electronic bonds are intangible bonds offered, traded, and registered electronically.[42]
- **War bonds**: Bonds issued by government agencies in order to finance the military sector in equipment, salaries, and materials needed in cases of war.[43]

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[37] Ziad Ramadan & Marwan Shmout, op.cit., p.112.
[38] Frederic S. Mishkin, op.cit., p.74.
[39] Munir Ibrahim Hindi, ***Financial Management,*** fourth Edition, Modern Arab Center, Egypt, 1999, p.557.
[40] U.S. Securities and Exchange Commission, ***Investment-grade Bond (or High-grade Bond)***, 2023, consulted on 10/07/2025, at https://www.investor.gov/introduction-investing/investing-basics/glossary/investment-grade-bond-or-high-grade-bond
[41] Chaker Atallah, op.cit., p.144.
[42] Issam Abdelghani Ali, op.cit., p.194.
[43] Andrew Ancheta, ***War Bonds***, 27/03/2022, consulted on 15/07/2025, at https://www.investopedia.com/terms/w/warbonds.asp

➢ **Climate bonds (green bonds)**: They are bonds launched by the official authority authorized by the government to deal with volatile climate situations in the country or to finance projects that reduce carbon emissions or alleviate the effects of climate change. When the state faces changes in climate and adverse conditions, the agency is equipped to deal with climate change through this type of bond.[44]

➢ **Serial bonds:** This type of bond is based on a precise sequence of repayment of the asset over fixed periods of time before the expiration of the bond period, to reduce the bond's value to zero at the last payment.[45]

➢ **Extendable bonds:** They are another type of bond that gives the buyer the right to extend the bond's term when the maturity period is exceeded or before it is exceeded.[46]

➢ **Traditional bonds and subordinated bonds:** Bonds are financial instruments used to pay interest for a specified period. Traditional bonds are paid in a single payment at the bond's term's expiration, while subordinated bonds have a lower priority in repayment. In the event of an issuer's bankruptcy, ordinary bonds are paid first, followed by subordinated bonds, which are high-interest-rate bonds due to their high risks. Interest is typically paid on semi-annual or annual periods.[47]

2.2.2. Stocks (shares): Shares are a participating security, giving the holder the right to receive a share of assets and realized profits. The shares are divided into ordinary and preferred, which in turn are divided into several forms of shares, the most famous of which are:

➢ **Ordinary shares**: These shares constitute the largest category of shares issued, whose holders have the right to participate in the profits of the company after paying the dividend but before paying the deferred dividend.

➢ **Preferred shares**: These shares enjoy certain privileges in voting, profits, liquidation products, or other rights, provided that shares of the same type are equal in rights and privileges. The preferred share differs from an ordinary share in that it enables the shareholder to receive a fixed return before making any dividends received by the holders of the common stock. If the company does not make a profit covering the amount of dividend the holder must receive, the right does not fall but may be deferred.[48]

➢ **Nominal shares**: These shares are registered in the name of their owners in the issuing company records and require that the name of the new owners be re-registered in the event of any transfer of ownership.

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[44] Climate Bonds Initiative, ***Understanding Climate Bonds***, 2023, consulted on 15/07/2025, at https://www.climatebonds.net/resources/understanding

[45] James Chen, ***Serial Bond: What it is, How it Works, Example***, 29/04/2022, consulted on 15/07/2025, at https://www.investopedia.com/terms/s/serialbond.asp

[46] James Chen***, Extendable Bond Definition***, 30/03/2023, consulted on 15/07/2025, at https://www.investopedia.com/terms/e/extendablebond.asp

[47] Konstantine Vasilev, ***Subordinated Bond***, 06/08/ 2023, consulted on 15/07/2025, at https://cbonds.com/glossary/subordinated-bond/

[48] Real Business Rescue, ***Understanding Preference and Ordinary Shares***, 2023, consulted on 18/07/2025, at http://bitly.ws/Sob9

- **Bearer shares**: The ownership of these shares is transferred once they are required, so the holder of this type of share shall not be entitled to vote in public associations.
- **Order shares (promissory notes)**: This type of share resembles ordinary shares in that the name of its owner is mentioned on the instrument, but the transfer of its ownership depends on its mere manifestation and does not require its return to the company; the requirement of permission or order accompanies it.[49]
- **Free shares**: These shares are distributed free of charge to shareholders in the company that uses them as a strategy to increase its capital, using profits that were held in the form of reserves.
- Shares listed on the stock exchange and unlisted shares.
- **Preferred blue shares of high quality**: These shares are of interest to investors seeking to build a low-risk financial portfolio, as they relate to large companies with an excellent reputation that generate profits and distribute them continuously and regularly.
- **Buy-and-hold shares**: Investors accept the acquisition and long-term retention of these shares as part of their long-term strategy to generate rewarding returns because of the widespread belief that their exporting companies can achieve significant profits in the future.
- **Income shares**: They are the shares of large and long-standing companies active in important sectors such as industry and services and have a long tradition of distributing profits regularly, which attracts investors, especially older ones looking for regular income.
- **Speculative shares**: Investors use speculative shares to speculate and gain greater profits. Speculative stock is highly risky and traded at a relatively low price because its fundamentals do not look strong or have a sustainable business plan, yet the trader is optimistic that the share price will improve in the future.
- **Cyclical shares**: These shares are due to companies whose revenues are linked to a close relationship with the overall economic situation. The share prices rebounded during the economic boom and decline, making it one of the most prominent shares of the automotive industry.
- **Growth shares**: They are the shares of emerging and modern companies active in promising sectors that supposedly possess significant opportunities for expansion and growth, reflected in their future market value and their expected distribution of significant profits.
- **Quality shares**: These shares belong to companies that are famous for having quality and distinct management, which creates security and guarantees for investments in their shares.
- **Value shares**: They are shares whose market prices are usually undervalued as a result of complex conditions that the company suffers from, but they are expected to surpass and make significant profits in the future.[50]
- **Ordinary shares of the productive divisions**: In the 1980s, GMC introduced several innovative categories of stocks, each associated with the dividend of a

[49] Ziad Ramadan & Marwan Shmout, op.cit., p.98.
[50] Chaker Atallah, op.cit., p.126.

production department. Ordinary shares of productive divisions are distributed based on the activities and profits of these divisions. The E Class category is associated with the electronic information systems division, while the H Class category is associated with the aircraft parts division.

- **Ordinary shares with deductible distributions**: Governments have introduced incentive legislation to encourage employees to participate in company ownership and expand their ownership base. Ordinary shares with deductible distributions are introduced to exempt companies from interest taxes if they provide loans to finance the purchase of shares. This allows companies to include dividends on shares in expenses deducted prior to tax calculation when selling shares to employees.
- **Blue-chip shares**: Unlike familiar shares, companies may issue shares that give their holder the right to obtain compensation from the issuing company if the market value falls to a certain extent within a period of time that is declared in the prospectus.[51]
- **Defensive shares**: They are the shares of companies active in vital sectors that are not affected by business cycles or emergency conditions, such as essential goods and services companies, which give them relatively better security and stability.[52]
- **Convertible shares into bonds**: These shares are corporate securities that allow their holders to choose to turn them into a certain number of bonds within an agreed period to benefit from the fixed income of bonds.[53]
- **Convertible preferred shares into ordinary shares:** These shares are corporate securities that the investor can have the option to turn into a certain number of ordinary shares of the same company after a predetermined time span or on a specific date.[54]
- **Callable shares**: These shares are shares that belong to a company that can buy back. Callable shares may be issued in order to have the option of retaining tighter control over a business or to avoid paying interest on preferred stock.[55]

2.2.3. Investment certificate & voting trust certificate: Investment and voting trust certificates are tradable securities, typically offered at a nominal value equivalent to the share. These certificates are distributed free of charge to shareholders during stock fragmentation or to increase a company's capital. Investment certificates have the same financial rights as shareholders, including priority of subscription bonds and share issuing and participation in profits and losses without management involvement. Voting trust certificates grant owners non-financial rights, such as voting on company decisions and management participation.[56]

2.2.4. Financial derivatives: Financial derivatives are innovative financial instruments designed to manage risks related to interest rates, prices, and exchange rates. They first appeared in 1937 for merchandise market dealers, with the first futures contract in 1950 on the rice exchange in Osaka, Japan. The Chicago Grain Exchange

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[51] Munir Ibrahim Hindi, ***Financial Management***, op.cit., p.542.
[52] Nadia Abu Fakhra & Mahmoud Sobh & Shamel Al-Hamoui, op.cit., p.26.
[53] Chaker Atallah, op.cit., p.146.
[54] Nadia Abu Fakhra & Mahmoud Sobh & Shamel Al-Hamoui, op.cit., p.84.
[55] Accounting tools, ***Callable Stock Definition***, 10/03/2023, consulted on 18/08/2025, at https://www.accountingtools.com/articles/what-is-callable-stock.html
[56] Aouadi Naceur, op.cit., p.201.

approved these contracts in 1965, and a clearinghouse was also established that same year. Derivatives became popular in financial markets as early as the 1970s, but their misuse has led to speculation and profit-taking.[57] Derivative contracts vary in nature, risks, and duration and are valued in terms of assets, instruments, or financial indicators. They are contracts between parties where the price of assets or indices is determined at present, with a fixed rate to be delivered at a later date.[58] Derivatives can be divided into:

- **Options**: These derivatives are contractual agreements whereby the issuer of the option (the seller) grants the right rather than the obligation to the subscriber of the option (the buyer) to sell and purchase one or more financial instruments at a predetermined price (strike) at a future date. Financial options are divided into:
    - ✓ **Call option**: This option gives the buyer who subscribes to it the right to exercise the contract if not.
    - ✓ **Put option**: In this option, the seller of the option has the right to exercise the contract or not.

Combining call and put options allows for limitless profits and a maximum risk volume limited to the price of the option contract, known as the premium. The U.S. option allows parties to exercise or cancel the contract before the time limits are reached, while the European option does not. The buyer pays the costs of coverage received by the seller, representing a small proportion of the contract's value. This has led to options markets being the most developed in recent years. Option buyers always make gains even in the worst cases, but if expectations are not met, they are under no obligation to perform the contract and incur losses, paying only for coverage costs.

- **Futures**: Futures contracts are contracts between two parties, one with a long position and the other with a short position, committing to deliver and receive financial assets at a specified time in the future at a specified price and conditions. Unlike options contracts, futures contracts are obligations to receive and deliver on the agreed date. To maintain the attractiveness of the futures market and avoid substitution due to default, the world's stock exchanges require all parties to pay a financial guarantee, or margin, to the clearinghouses that register the contract. The margin includes a fixed portion of the amount if the contract is paid when the contract is concluded and a variable part required by the exchange commission for attitude adjustment (situation settlement) if the margin account falls to a certain extent.
- **Swaps**: Swaps are financial derivatives that involve commitments to exchange cash flows to achieve specific objectives, such as profit and future commitments. Companies use swaps to benefit from each other's financial benefits, reducing borrowing costs and gaining an advantage. Companies may have a good reputation or credit rating for bank borrowing at low interest rates. In contrast, others offer bonds at low interest rates, allowing both companies to make better gains and agree to swap interest rates. Swaps can also include currency, commodity, and equity swaps.

[57] Anthony Saunders and Marcia Million Cornett, op.cit., p.691.
[58] Issam Abdelghani Ali, op.cit., p.299.

2.2.5. Investment certificates: Investment certificates are investment products issued by mutual funds, allowing investors to collectively invest their capital through a portfolio of financial instruments like shares, bonds, and other securities. These certificates are crucial for accumulating personal savings for significant investments or retirement. They are an essential component of the financial market, making institutional and personal savings available as loans to companies and projects contributing to growth and job creation.[59]

2.2.6. Foreign currencies: Foreign exchange markets trade foreign currencies and financial instruments in different currencies, with transactions conducted by central commercial banks linked to a global telecommunications network. These markets operate in major financial centers in London, New York, Tokyo, Singapore, Hong Kong, Frankfurt, and Zurich. Investment in these markets is affected by risk and return, and government restrictions are usually unaffected due to their freedom.

2.2.7. Physical (tangible) assets: Real estate, a type of physical asset, is a crucial component of economic growth. It is often mortgaged as collateral to obtain loans or securitized in bonds backed by mortgage loans, creating debt for investment in real estate. This financial system plays a significant role in financing the acquisition of households and businesses.[60]

3. Financial markets participants

Many traders, like other markets, operate in financial markets to ensure market efficiency and good functioning.

3.1. Types of participants

3.1.1. Hall dealer: The mission of the hall dealer is to execute specific orders from his/clients to sell and buy securities for their benefit, charging them for this commission as determined by the market authority.[61]

3.1.2. Dealer agent: A dealer agent is a person who works for a brokerage house and receives orders to execute on behalf of clients.[62]

3.1.3. Market maker: Market maker is an exchange trader who has capital to use in the sale and purchase of securities for the benefit of his/its investment portfolio after obtaining a special license. Because it deals with great values, the maker can influence the market, move the prices, and make it happen.[63] Market makers can be divided into:

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[59] European Commission, ***Investment Funds***, consulted on 12/07/2025, at https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/financial-markets/investment-funds_en

[60] Omar Taleb, ***The Impact of Mortgage Debt Securitization on the Performance of the Secondary Real Estate Market - A Comparative Study of the Countries of North Africa-***, Ph.D diss in Economics, Biskra University, Algeria, 2014/2015, pp.138-140.

[61] Munir Ibrahim Hindi, Securities and Capital Markets, op.cit., p.115.

[62] Ibid

[63] Ziad Ramadan & Marwan Shmout, op.cit., p.138.

- **Hall brokers (speculators):** They look like hall dealers but work for their own interests (self-employed) and do not carry out any operations for the public or other brokers.

- **Specialists**: They are financial intermediaries specializing in dealing in a particular type of security; they may be self-employed or work for other brokers.

- **Small order brokers**: They are traders who deal in small quantities of securities for sale and purchase on their account, earning a commission representing the difference between the purchase price and the sale price.

- **Large order brokers**: They are traders who deal in large quantities of securities on their accounts in order to sell them to the requesting person.[64]

3.1.4. Initial Issuances coverage underwriters: The intermediary can underwrite new issuances of securities in exchange for a commission set out in the underwriting agreement, thus performing the role of the agent, who is responsible for marketing and connecting the public to the issuers of securities. However, the underwriter's role may be limited to selling and marketing publications without undertaking to underwrite them entirely or in part.[65]

3.1.5. Investment companies: An intermediary can be an investment company if it has the necessary qualifications.[66] The investment company acts on its own account or on behalf of others (clients) in the building and management of a portfolio of securities. With respect to clients, investment companies, based on a joint agreement, manage clients' investments, provide advice and counselling, and may go beyond their role to act freely and make decisions to sell and buy securities without referring to the client for a commission paid by sellers, buyers, or both.[67]

3.1.6. Independent (autonomous) research institutions: Although they do not engage in brokering or intermediation activities, independent research institutions contribute to stimulating the market by conducting, on request, studies and analyses of information to reach the best investment decision, especially since financial intermediaries are the category that most widely uses information. Research institutions charge a commission from their service applicants, whether clients or brokerage houses, which is called "hard dollars" in the United States. The following figure illustrates the various financing methods available in financial markets.[68]

3.2. Importance of financial intermediaries

Financial intermediaries have pivotal roles to play, as they are the engine of the markets, reflecting positively on the performance of financial markets, including:

- Financial intermediaries enhance market efficiency by offering clients up-to-date information and analysis on the assets listed or traded in the market.

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[64] Munir Ibrahim Hindi, ***Securities and Capital Markets***, op.cit., p.116.
[65] Ziad Ramadan & Marwan Shmout, op.cit., p.138.
[66] Most local laws require investment companies to have financial resources represented in the capital, reserves, and other self-financing.
[67] Ziad Ramadan & Marwan Shmout, op.cit., p.138.
[68] Munir Ibrahim Hindi, ***Securities and Capital Markets***, op.cit., p.115.

- Financial intermediary companies, with their extensive experience in selling and purchasing securities, provide clients with expert advice on optimal investment decisions and can manage their portfolios on their behalf.
- Market makers, intermediaries, and clients use their securities stock in sales or purchases to maintain price stability and transaction volume. They encourage clients to buy and sell by reducing and raising profit margins, ensuring a balance in demand and supply, thus stabilizing prices and trading volume.[69]
- Activating the financial market, some intermediaries lend to investors and clients who want to buy securities, allowing continued market demand and high liquidity.
- The market stability is maintained by selecting the optimal times for offering securities for subscription or covering issuances, leveraging the presence of intermediaries, their market knowledge, and their ability to anticipate market orientation.
- The organization is actively involved in providing indirect financing, facilitating the exchange of funds between savers and borrowers, thereby ensuring market liquidity.
- Availability of funding commensurate with different timelines by funding long-term operations from short-term sources [70]
- Risk reduction and diversification through the building of investment portfolios in various fields and activities.
- Making it easier for the clients to use special financial services.[71]
- Reducing costs by offering the feature of economies of scale to investors seeking to build a sound portfolio.
- Helping corporations optimize the capital structure by obtaining an appropriate mix of equity and debt.
- Stimulating economic development.
- Linking households to the financial market.
- Safeguarding the hard-earned money of clients.

Providing financial advisory services, providing financial information, and engaging in credit rating.[72]

3.4. Efficiency of financial markets

3.4.1. Efficiency Concept: An efficient market is essential for maximizing financial resource allocation and providing optimal investment opportunities at the lowest time and cost. It ensures securities prices reflect all available information, preventing unfair benefits for some parties and being incompatible with fair competition.[73]

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[69] Munir Ibrahim Hindi, ***Securities and Capital Markets***, op.cit., p.115 .
[70] Nadia Abu Fakhra & Mahmoud Sobh & Shamel Al-Hamoui, op.cit., p.62.
[71] Nirmalarajah Asokan, ***What are Financial Intermediaries Used for?***, on 09/10/2022, consulted on 28/07/2025, at https://agicap.com/en/article/financial-intermediaries/
[72] Wallstreetmoj Team, ***Financial Intermediary***, consulted on 30/07/2025, at https://www.wallstreetmojo.com/financial-intermediary/
[73] Abdul Ghafar Hanafi, op.cit., p.205.

Economic efficiency, based on the assumption that time has elapsed since information was received, is necessary for market functioning and intermediaries. However, full efficiency is impossible, and economic efficiency requires certain costs and taxes incurred by investors. To achieve its objective and function efficiently, the market should have two main characteristics:

- **Internal efficiency**: Operational efficiency refers to the market's ability to use savings in the best investments, directing resources to profitable securities at the lowest possible cost. This includes brokerage commission expenses and fees paid by buyers, sellers, intermediaries, and market authorities. Higher operational efficiency leads to higher market attractiveness and high demand, impacting the market and liquidity of securities.[74]
- **External efficiency**: Price efficiency refers to the external efficiency of securities prices, ensuring they reflect all available information without significant intervals, allowing market value to express fair real value without predicting future prices or adopting extraordinary returns strategies.[75]

3.4.2. Levels of efficiency:

- **Poor level:** Financial markets, characterized by their efficiency, are characterized by their ability to reflect historical information about prices and transaction volume, making it accessible to all. This level of efficiency, according to the random walk theory, reduces the possibility of extraordinary profits by allowing analysis of historical prices and predicting future prices.[76] This theory suggests that stock prices in financial markets are in random motion, making it difficult to predict future trends or price action. If markets are random, they are efficient, reflecting all available information.[77] However, most developing financial markets are poorly efficient, highlighting the complexity of financial markets.
- **Semi-strong level (near-strong level):** At the semi-strong level of efficiency, prices reflect historical and publicly available information, such as international, economic, and industrial conditions. Timing is crucial, as prices may not respond quickly to changes, allowing some investors to make extraordinary profits. This level of efficiency is closest to practical realities, as advanced financial markets have not yet exceeded the semi-strong level of efficiency.
- **Strong level:** The prices of securities under a strong level of efficiency reflect all types of information, including historical and publicly published data, as well as unpublished or private information available only to specific categories, such as entity managers, decision-makers, and financial institutions specializing in investment and securities analysis. The speed at which prices respond to information makes it difficult for a group to take advantage of it or monopolize it for additional profits. The development and low costs of communication have improved financial market

[74] Abdul Ghafar Hanafi, op.cit., p.209.
[75] Suleiman Mosli & Hazem al-Saman, ***Price Efficiency Study for Damascus Securities Market***, Damascus university journal for the economic and legal sciences, Vol 29, N°02, 2013, p.155
[76] Ibid
[77] Tim Smith**, *Random Walk Theory: Definition, How It's Used, and Example***, 23/02/2023, consulted on 08/08/2025, at https://www.investopedia.com/terms/r/randomwalktheory.asp

efficiency, allowing investors to respond quickly and take advantage of traded information.[78]

[78] Suleiman Mosli & Hazem al-Saman, op.cit., p.155.