THE FUNCTIONING OF THE CAPITAL MARKET IN MODERN CONDITIONS

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Abstract: *Financial markets are the lifeblood of the global economy where changes in one part of the world quickly and violently, like waves, spread and affect every country, company and individual. This is most clearly manifested in the great world economic crisis that began precisely on the US financial market, that is where the market is most developed, and extended to all other countries. Financial markets in the modern world are associated with the other segments of the world economy. To understand the phenomenon and fluctuations based on this exhibit, today more than ever necessary to monitor the total change, not only in in economy but also in all other segments of society. One of the causes of the financial crisis lie precisely in the fact that innovations in financial markets reached a situation in which they are out of control. The global economic crisis in a relatively short period of time has led, however, a dramatic fall in the stock market, bringing down share prices and companies which are economic parameters resisted the crisis, but could not resist the psychology of mass spreading panic and fear of investors. Institutional investors are the most important creators and participants in financial markets, and will therefore study their role to be given special attention.*

Keywords: *Financial market, Capital market*

1. Introduction

The financial market is a transmission mechanism for lending funds to business entities that have surplus funds to those who need these funds are missing for certain business activities.

The transfer of the first group to another takes place through the credit - deposit mechanism in the banking sector and through issuing securities issued by issuers which have the resources needed.

The narrow definition of financial markets linked to the term of the securities market. The basic functions of the securities market are:

1. Providing opportunities to corporations and governments to raise capital
2. Good to efficient allocation of capital to companies and projects
3. Enabling households to increase savings by investing through this market
4. Enable investors insight into potential earning opportunities in the market, serving as a guide for decision making management corporation
5. To generate employment and income.

The development of financial markets spread and range of financial instruments. In addition to funding by issuing shares and has developed variety of financial instruments based on debt securities, and

more recently have experienced expansion and financial derivatives. (Dugalic, 2001)

The most famous and equity instruments are shares and debt instruments known as bonds. As the most famous short-term debt securities may be taken treasury bills issued by the US government, which have maturities ranging from 90 to 360 days and can be considered the equivalent of cash because they are liquid at any time and are only in the form of entries in the books (book entry form) . In addition, money market instruments are: commercial paper, bankers acceptances and other instruments.

The most common is the division of the financial markets on the capital market and the money market. This division is related to the maturity of the securities, including capital markets are the financial debt instruments that have a maturity of over one year and equity securities, the actions of course and have no maturity, while money market instruments belonging to the cash and debt securities with a maturity of up to years. The most important one part of the capital market makes the stock market or the market in which you make stocks (equity securities related to the share capital expressed in shares).This is typical for Anglo-Saxons market, i.e. the United States and Britain.

Method

The dominant research method that was used during the preparation of this scientific paper is a scientific method based on the available data and the information made available through the scientific community.

Thus, the method of research "at the table" is dominant when it comes to the collection of data but also their checks on reviewing material from multiple sources about the problems of functioning of modern financial markets.

Results and Discussion

The European Union countries are represented more financing through the banking sector and stock markets reserved only for the biggest and best companies. Increasingly, developing and financing through debt securities in order to reduce dependence and reduce the risks of the banking business. [1]

Table 1. Dominant forms of financing

Business Size	small businesses	medium-sized	Big businesses
The dominant form of financing	Bank loans	Direct placement	Public offer - stock market
Maturity	of short-term	often rarely	often rarely
Security	Always	Very often	Rarely
Monitoring by the investor	Intense	medium	Low
Contracting	Directly	brokers	Underwriters

When it comes to financing the so-called "small business" the most appropriate forms everywhere in the world of bank loans. Maturities are mostly short-term, but depending on the purpose and type of loan can be in the medium term, usually 5 years. If it is a medium size company which has Significant assets and wants to fund say the procurement of machinery and equipment, loans can be up to ten years with a "grace" period, or more popularly grace period of one to three years. It is believed that the risks in extending these loans are high, as shown by the statistics, and for several reasons. First, a large number of small businesses in the world starts every year, but a high percentage off. There are as it is for example the case of large, well-known companies, the information on doing business in the longer time series, i.e. there is no history, so it is difficult to analyze the company's credit worthiness. This is particularly important for lending operations in the so-called establishment. Therefore, contracts are strict, and always require a firm assurance from the entrepreneur. But in developed countries, the state, knowing of these problems, and bearing in mind the importance of SME development, establishing the guarantee

funds and specialized institutions to reduce risk and to assist in the development of these enterprises. (Jeremic, 2012)

When, however, comes to financing medium and large businesses, in addition to bank loans is imminent and financing through the capital market.

The capital market brings together companies that lack long-term funds for the development of business activity, with investors who have funds to invest, or surplus funds, which are saved and who would like to sell for profit. For the company's money is important to be able to develop and exercise the projects that will strengthen their market position and overall references, and thus higher profits. To achieve this, companies need to have the capital to ensure: fixed assets, ie buildings, machinery and other equipment, to pay workers and to fund research and development. to secure the required additional capital companies in less developed economies where not functioning satisfactorily capital markets, mainly those needs are financed by bank loans.

In developed countries, companies finance these needs not only bank loans, but also through fundraising issuing securities or capital markets. Financing is being played by the private or state-owned company transformed into a company open to the public and conducted emissions and the placement of its securities which can be traded freely. This process is known as “going public” or going out in public. Thus, the company actually sells part ownership of your business every single investor or buyer of shares and so then satisfy the financial needs of raising capital. In contrast to the public, open company, a private, closed companies raise capital only from its members not getting out to the public, and therefore not subject to all the obligations which raise capital on the market means.

The privatization process of which has now implemented represents some form going public or transformation of social and state enterprises in open joint stock companies - corporations.

In developed economies the main reason why a company becomes a public limited company is that its owners, state or private owners, in this transformation, see the benefits for the company, especially in terms of financing its development and in terms of management. When a company decides to take on this kind of financing it, it is in developed economies mainly works through the investment banks or investment dealers or underwriter - guarantor emissions. Its task is to make an initial offer of shares on the market, or the first issue of shares intended for purchase by the public. It was a single transaction between the company and the shareholders who buy its shares. The role of investment banks, dealers or

guarantor emissions, is to advise the company on the number of shares that will be broadcast and their prices.

With regard to the recapitalization, it is very important that the program is successful, or that the shares are sold, so the investment bank buys the whole show taking time and risk, or only technically conduct the entire operation by working in good faith. This market, where the company first issues shares, called the primary market. (Mihajlovic, 2015)

When a company becomes public when issues shares, these shares are traded on the stock exchange. Before that, however, it must meet the standards set by the stock exchange that must be listed on the stock exchange. The market in which the company has issued shares are bought and sold is called the secondary market. The investor may be called. institutional, such as companies that do business with the pension and mutual funds, banks and insurance companies, as well as individual investors will.

Investing in stocks involves understanding the risk that when it came on, and the relationship of risk and height of potential profits. Therefore, it is in the developed economies developed and profession of investment advisors who help clients to invest in accordance with the position they prefer. Investments must be adapted to the amount of wages or income of the client and the amount of savings you have. Some customers prefer high-risk investments in order to achieve high profits, while others prefer to invest in safer securities, but with lower earnings potential.

Conclusion

Understand complex phenomena in financial markets, as well as their interdependence is a very difficult task. Companies are faced with making decisions about how their financing in the market. Market conditions play a significant role in deciding whether the company will issue equity or debt instrument. If the stock market is growing and there are estimates of its further rise, the shares of the company are well on the stock market, it is logical to raise additional capital by issuing shares. High stock prices means that the additional capital raise with broadcasting less action, and that means that the so-called equity dilution of existing shareholders will be less. If the stock market is constantly declining, the issuance of bonds may be the only rational solution.

Interest rates in the market is also important in deciding which instrument output. High interest rates do not favor the issuance of the bonds due to the high costs which the company would have to pay. Bonds are better suited for financing specific projects that can be predicted and

projected costs, but to finance the general needs of the company, where it is not possible to make accurate projections. By buying the shares the investor becomes the owner of the company and share the fate of its successful or unsuccessful operations, but by issuing shares "crushed" percentage of the ownership of existing shareholders own. If it is a good company existing shareholders will wish that they receive pre-emptive rights of such shares, to retain the stake in the company.

However, if an investor buys bonds of the same issuer, it becomes a creditor of the company. He owns only the nominal value of the bonds and the interest which the company has promised to pay on that amount in exchange for the obtained money of investors, which is usually paid semi-annually until the bond is repaid. The price of the bonds in the financial market varies depending on the general developments in market interest rates. Thus, for example, if market interest rates rise, the owner bought the bonds that they wish to sell, will be able to do so only at a lower price than that at which it was bought, because the customer wants to get a yield that is currently on the market.

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