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Financial Market and its Definitions: Transformation of Scientific Concepts

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Abstract: The authors determined trends and characteristics of the financial capital's functioning in a particular period of societal development and applied it as the basis for anchoring a definite interpretation of the financial market. The research results classify the financial market researchers into three schools: monetary, segmented and the capital market. Based on the analysis of interpretations of the financial market of these three schools, the authors developed their own definition of the term.

Key words: Financial market · Segmented theory · Desmo-instruments · Kazakhstan

INTRODUCTION

The scale of globalization processes is evidenced in financial markets the most, in comparison with other fields. The volume of the world trade in the last twenty years has grown dramatically. However, the trend of the world trade growth is lower than of financial markets for the last years. During the development of the loan market, the main competitors for its distribution and profitable usage were industrial and financial businesses. The main difference of the current period is that financial institutions have become the key players in development of the world economy and have concentrated most of the deals on themselves. For instance, in the period of strong economic growth (2006-2007) of Kazakhstan, the total assets of financial institutions have almost reached the volume of GDP produced by the domestic economy (87.7%). Thus, the financial market is probably the most common and sustainable concept used in society. However, definitions of the term "financial market" are very diverse and in spite of their essential commonness, definitions differ from each other in terms of the object and approaches used in the formulation of the concept.

First application of the concept in the business world associated with the emergence of the stock market, which to this day is often identified with the term of financial market. Nevertheless, in comparison with such terms as "finance", "capital" and "money", to name a few, the term financial market has been used in science just recently – 50-60 years ago. If to analyze scientific works and publications of the earlier period, it can be noted that during this period, in most cases the term money market has been applied. Perhaps the commitment of some of our contemporaries to this approach prevents from setting clear boundaries of the concept of "financial market".

A number of researches devoted or at least related to the operation or financial market interprets its content and substance. Many important, from a scientific point of view, works and statements have been made at different times and have contributed to the development of financial science. However, the financial relationship does not stand in one place. Moreover, they exhibit an enviable capacity for interactive development, particularly in the context of developing the processes of integration and globalization. In this regard, the commitment of many authors to the theory of loan market (classical school) did not contribute to the further development of financial theory with regard to the study of the formation and development of the financial market with signs of global structure.

The need to determine the financial market in terms of its functioning in the context of economic globalization and the increasing integration of national financial markets has led to the research problem. With this purpose, the works of foreign and local schools of financial science have been analyzed. The result of the work has shown that the existing concepts of the financial market can be classified as following in accordance with its fundamental definitions: monetary, segmented and capital market.

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Table 1: Research concepts of the financial market category

Concept	Author	Definition	Structure
Monetary concept	Esipov [1]	Financial market is the part of money market	Financial market= stock market = securities market + other capital markets
	Kidwell *et al* [2]	…gives an opportunity to its participants to exchange belonging to them financial requirements to money and other types of assets	Financial market is both the security market and mortgage market, as well as the market of international loans and currency market
	Sacks & Larren [3] Kovalev [4]	…sphere of circulation of financial assets The system of trading financial assets and instruments	Currency market + gold market + capital market + cash market
	Melnikov & Lee [5]	Form of transactions, where the objects of sale are the available funds of economic entities, state and population	Money market + capital market
Capital market	Barinov & Khmyz [6]	Financial market is the market where operations with securities take place	Conditional sum of currency market, interbank loans market and securities market
	Dolan [7], Miller & VanHoose [8]	Financial market comprises of market institutions, directing the cash flow from owners to borrowers.	Channels of direct (securities market) and indirect (banks, investment funds, insurance companies) financing
	Mankiw [9]	The transfer of people's savings to investors with the help of banks' mediation through deposit-loan mechanism or placement of assets in bonds issued by investors	Money market and capital market
	Teplova [10]	The system of forming supply and demand for financial assets, cash, investment sources (as loan or own capital)	Cash market + stock market + capital market
	Krasavina [11]	A part of loan market where emission and buy and sell operations of securities take place	Securities market
	Melnikov & Iliyasov [12]	Special economic relations concerned with the cash flow in different forms and flow of securities	Cash flow market, loanable funds market, securities market
Segmented concept	Teslya [13]	No particular definition	Financial market = currency market + gold and precious metals market, deposits market, loan market, securities market
	Stiglitz [14]	Provides financial services which allocate capital and service institutions, thereby savings of individuals turn to firms' investments	Financial market = bank sector, securities market, currency and insurance markets, savings and loans market
	Gitman & Joehnc [15]	Mechanism, which for the conclusion of transactions brings together all those who offer money to those who need them	Financial market = cash market + capital market (short-term +long term)
	Samoylov [16]	Set of interrelated segments, each of which is relatively independent of the market structure	Cash market, securities market, gold and precious metals market
	Pervozansky [17]	A market in which money and securities are goods themselves	Cash market + capital market (loan and stock markets)
	Kolesnikova [18]	The scope of the economic laws	Market where outstanding cash performs the function of short-term means of payment (bills, checks, etc.), loan market - bank loans, securities market
	Mikhailov [19]	Market where the objects of commerce are loan capital, debt instruments and derivatives contracts	Deposit market + loan market + Securities market + currency market
	Morozova [20]	No particular definition	Money resources market + securities market + currency market
	Iskakov, Bokhaev & Ruzieva [21]	System of mechanisms of redistributing capital between lenders and borrowers through intermediaries in the form of supply and demand for capital	Cash market + deposit market + loans market +securities market + pensions market + currency market + insurance market

Literature Review: Representatives of the monetary concept determine the financial market as a part of the money market and, along with adherents of the theory of origin of the financial market as a part of the capital market identify it as the stock mechanism with inherent instruments - securities. The main disadvantage of these interpretations is that the scope of the financial market has been converged to the frame of the single segment, which is the stock market and does not allow to consider the links of this market to the others even though there are seven segments, which are loan, currency, deposit, money, insurance, pension and stock, meanwhile money market is considered as the market of purchasing service (Table 1).

Scientists representing the concept of the financial market as the capital market consider it as the market which is based on the reallocation of capital between lenders and borrowers in various forms. Defining the financial market only by the means of "relations between the lender and the borrower", as well as in monetary concept narrows the scope of research down, although it is slightly wider than the former concept.

The segmented theory is held by those financial theory and practice representatives, who believe that the financial market is more than a single sector of the economy and includes all directly related to its segments. We need to do an additional segmentation among representatives of segment theory: considering the structure of temporary basis (the short-term and long-term market instruments) and by function (market loans, deposits, foreign exchange, etc.).

The main limitation of the segmented concept is the narrowness of scope of the research, which is framed only by the structure of the financial market. This limitation was revealed with development of integration and globalization processes in the world economy. That is what has actualized the need to study the essence of the financial market from the perspective of the segments relationship contained in it sectors.

Typically, the relationship is governed by formal and informal rules in any environment. If these rules are the same and the basic principles of relations do not change when replacing the one subject to another, with the same roles (functions), then we can speak about the presence of segment structure. The structure includes a specific role of each individual segment and its subjects, if any of roles are missing, the other subjects with different roles cannot perform in their functions fully. The basis of interests is common finance, which creates the possibility of higher returns.

Kazakhstan's financial law also gives definition to the concept of financial market in the Law "On the Securities Market" and in the Law regulating the activity of the main supervisor of the financial market of the country [22]. In particular, it defines that "... the financial market is a set of relations which is connecting with the provision and consumption of financial services, as well as the issuance and circulation of financial instruments." It also provides financial services concept, which shows the structure that defined by the legislation of the financial market of Kazakhstan. Thus, the financial services cover the activities of the insurance market, stock market, mutual funds, pension funds, as well as banking activities. As per today, it is distinctive for Kazakhstan's financial market to use capital market instruments (syndicated loans, bonds) to solve the short-term issues, which in the world practice usually involve money market instruments. In compliance with foreign experts, in the market of post-Soviet countries there is no differentiation of foreign investors for the "players" of the money market and capital market yet and perhaps that is the reason for this normative interpretation of Kazakhstani financial market structure.

RESULTS AND DISCUSSION

Since the late 90's, many scientists and practitioners have started to distinguish the financial market from capital market, financial market from the securities market and financial market from money market. The old identity of these concepts gradually receding to the background and the reason of this is the objective and subjective factors, which are taking place in the world economy.

Based on the statements above, it might be noted that the emergence of the new financial products and services, especially of financial instruments, has contributed to the development of the new conditions of financial relations, regulatory activities of all participants in the financial market. All this caused the identification of special features for a particular market, as a segment of the financial market system. Thus, some interpretations that existed prior to this period have focused on a specific type of relationship (loan, currency, stock) and they narrowed its application for the whole structure of the market (with its expansion or contraction depending on the author) and for its individual segments, then these processes in the global economy have had an impact on this categorical apparatus of financial science and identified the need for a distinctive division of concepts.

For Kazakhstan, the transition from the planned economy to the market economy was identical to the transition to the free market, where possibilities of the financial market are widely used, especially for provision the state's development with financial resources. It can be assumed that the *financial market is a set of all financial resources of the country, which are in constant motion and are object of constant supply and demand to these resources by the various economic entities.* It is important to understand that financial resources and economic entities cannot form the financial market themselves. Directly the market gets its shape when there are relationships between economic agents in the formation and treatment of financial resources.

Furthermore, the authors assert that the *financial market is a market in which the financial institutions and economic agents operate and turnover of financial instruments ensures the accumulation and redistribution of free money due to capital transactions.* The advantages of this definition are as listed below:

- There is no limitation of the scope of the financial market by definite financial instruments, which allows to use this concept in case of emergence of the new segments in its structure;
- It can be applied to the whole structure of the financial market as well as to its individual segments;
- It allows to identifying a distinct attachment to the market, but not system.

At the bottom line of our research is the concept of financial market's segments interaction and its structural classification by instrumental characteristics, based on the idea of unified meaning for the term "financial instrument" for all segments of financial market. As the foundation for this concept serves the notion of financial instrument, which is disclosed in International accounting standards (IAS). In compliance with these international standards, "financial instrument" is an agreement due to arise the financial asset to one company and financial obligations and equity instrument to another company [23].

From the definition given to the financial market earlier in this paper it might be noted that the financial market has the characteristics which are defined at the set of its segments. Even the fact that each of the segments can be considered as an independent financial market, which theoretically means the possibility of their isolated functioning, it is still not a statement that is contrary to our theory. Moreover, particularly this aspect of financial market's segmented structure is attractive for scientific research, because it appears as a result of formal logic researches. With the help of the dialectic logic it might be concluded that the financial market structure has been formed as the result of the financial services development process. In other words, structural connection dominates in these relationships.

With the development of commodity-money relationships, the first instruments in the form of cash occurred. Development of these instruments and improvement of economic relations in society eventually created the instruments of deposit and loan markets. Consequently, the latest advancement of this financial services developed instruments of insurance field. As a result of further development and improvement of financial services and considerable increase of financial instruments' turnover, the stock instruments were developed and traded. Valuable and fundamental financial market led to possible social changes in the economic politics of many countries, which were followed by the development of pensions market. Influence of globalization processes and formation of the international financial market led to the formation of specific desmo-instruments. The authors assume *that desmo-instruments are special form of financial instruments reflecting the formation of instruments, which were occurred as a result of the interaction of the financial market's segments.* The examples for desmo-instruments can be instruments of the following spheres: banking insurance, asset securitization, repurchase agreement transactions and hybrid derivatives.

Designation of the desmo-instruments on the financial market requires to determine its main characteristics, which are listed below:

1) The instruments expressing the interaction of two or more segments of the financial market, formed as a result of increased competition in the market;
2) Emerged from the desire of financial institutions to reduce the cost of communication and to improve their efficiency;
3) Represent instruments of diversifying the assets and liabilities of financial intermediaries, reducing risks of activities;
4) Formed as a way to consolidate and expand the position on the financial market;
5) Affiliation of these tools to a particular segment of the financial market depends on the characteristics and timing of their market turnover.

CONCLUSION

Existence of desmo-instruments on the financial market indicates a high level of interactions between segment groups of the market, improving the activity universalization processes and the necessity of specialized controlling.

While desmo-instruments demonstrate a high level of interaction, theoretical possibility of separate functioning of segments of financial markets is not excluded, as it was at the appropriate stages of the evolution of financial services treatment. However, this assumption exacerbates the problem of interaction, emphasizing its dependence on the level of development of society in general and financial markets in particular. Thus, at the moment the possibility of the operation of a single segment of the financial market would mean, for example, that participants in the insurance and pension funds would have to invest not in securities, but to the production or other assets. For the pension market it would mean the increase of the investing risks and consequently would endanger the pension system. In its turn, for the insurance market it would mean the essence and role, since by carrying insurance for production and consumption, their own insurance cannot be provided through diversification of investments in the production itself. Therefore, the structure of the financial market should be viewed as a whole, with the properties, functions and features characteristic of its component parts. Moreover, its "collective" properties and characteristics are formed by the interaction of financial market segments and their mutual influence on each other.

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