

TYPES OF FINANCIAL INSTRUMENTS AND APPLICATION METHODS

Financial instruments are essential components of the global financial system, facilitating the transfer of capital and risk among various market participants. These instruments can be broadly categorized into cash instruments and derivative instruments, each serving distinct purposes and applications in financial markets [1].

Cash instruments are those whose values are directly influenced by market conditions and can be readily traded. Examples include stocks, bonds, and certificates of deposit. Stocks represent ownership in a company and entitle the holder to a portion of the company's profits, typically distributed as dividends. Bonds, on the other hand, are debt securities issued by corporations or governments to raise capital, with the issuer promising to repay the principal along with interest at specified intervals. Certificates of deposit are time deposits offered by banks, providing a fixed interest rate over a specified term.

Derivative instruments derive their value from underlying assets, such as stocks, bonds, commodities, or interest rates. Common derivatives include options, futures, and swaps. Options give the holder the right, but not the obligation, to buy or sell an asset at a predetermined price within a specified period. Futures contracts obligate the buyer to purchase, and the seller to sell, an asset at a predetermined future date and price. Swaps involve the exchange of cash flows between two parties, often used to manage interest rate or currency risk [2].

The application of financial instruments varies widely across different sectors and purposes. In investment management, financial instruments are used to construct diversified portfolios that balance risk and return.

In corporate finance, financial instruments play a crucial role in capital raising and risk management. Companies issue stocks and bonds to raise funds for expansion,

operations, or debt refinancing. Derivatives are used to hedge against various risks, such as fluctuations in interest rates, currency exchange rates, and commodity prices. Financial instruments also facilitate efficient market functioning by providing liquidity and enabling price discovery. Market participants, including individual investors, institutional investors, and market makers, trade financial instruments on various exchanges and over-the-counter markets. This trading activity helps establish market prices, reflecting the collective assessment of an asset's value based on available information.

The regulatory environment for financial instruments has evolved significantly over the past decade, particularly in response to the global financial crisis of 2008. Regulatory bodies, such as the Securities and Exchange Commission (SEC) in the United States and the European Securities and Markets Authority (ESMA) in the European Union, have implemented stringent rules to enhance transparency, reduce systemic risk, and protect investors. These regulations cover various aspects of financial instruments, including disclosure requirements, trading practices, and risk management standards.

Technological advancements have also influenced the development and application of financial instruments. The rise of fintech has introduced new instruments and platforms, such as digital currencies and blockchain-based assets, which offer innovative ways to transfer and manage financial value. These technologies have the potential to increase efficiency, reduce costs, and enhance security in financial transactions.

In summary, the theoretical approaches to competitiveness provide a framework for understanding the strategic importance of financial instruments. By categorizing these instruments and exploring their application methods, companies can effectively utilize them to enhance their competitiveness, manage risks, and achieve their strategic objectives.

References:

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