This study session provides a structural overview of financial markets and their operating characteristics. Overview markets include equities, fixed income, derivatives, and alternative investments. Various asset types, market participants, and how assets trade within these markets and ecosystems are described. Coverage of these core asset classes continues in subsequent Level I study sessions, laying the foundation for further study in Levels II and III. The study session then turns to the calculation, construction, and use of security market indexes. A discussion of market efficiency and the degree to which market prices may reflect available information concludes the session.

**READING ASSIGNMENTS**

Reading 36  
Market Organization and Structure  
by Larry Harris, PhD, CFA

Reading 37  
Security Market Indexes  
by Paul D. Kaplan, PhD, CFA, and Dorothy C. Kelly, CFA

Reading 38  
Market Efficiency  
by Sean Cleary, PhD, CFA, Howard J. Atkinson, CIMA, ICD.D, CFA, and Pamela Peterson Drake, PhD, CFA

**LEARNING OUTCOMES**

**READING 36. MARKET ORGANIZATION AND STRUCTURE**

The candidate should be able to:

a. explain the main functions of the financial system;
b describe classifications of assets and markets;
c describe the major types of securities, currencies, contracts, commodities, and real assets that trade in organized markets, including their distinguishing characteristics and major subtypes;
d describe types of financial intermediaries and services that they provide;
e compare positions an investor can take in an asset;
f calculate and interpret the leverage ratio, the rate of return on a margin transaction, and the security price at which the investor would receive a margin call;
g compare execution, validity, and clearing instructions;
h compare market orders with limit orders;
i define primary and secondary markets and explain how secondary markets support primary markets;
j describe how securities, contracts, and currencies are traded in quote-driven, order-driven, and brokered markets;
k describe characteristics of a well-functioning financial system;
l describe objectives of market regulation.

READING 37. SECURITY MARKET INDEXES

The candidate should be able to:

a describe a security market index;
b calculate and interpret the value, price return, and total return of an index;
c describe the choices and issues in index construction and management;
d compare the different weighting methods used in index construction;
e calculate and analyze the value and return of an index given its weighting method;
f describe rebalancing and reconstitution of an index;
g describe uses of security market indexes;
h describe types of equity indexes;
i describe types of fixed-income indexes;
j describe indexes representing alternative investments;
k compare types of security market indexes.

READING 38. MARKET EFFICIENCY

The candidate should be able to:

a describe market efficiency and related concepts, including their importance to investment practitioners;
b distinguish between market value and intrinsic value;
c explain factors that affect a market’s efficiency;
d contrast weak-form, semi-strong-form, and strong-form market efficiency;
e explain the implications of each form of market efficiency for fundamental analysis, technical analysis, and the choice between active and passive portfolio management;
f describe market anomalies;

g describe behavioral finance and its potential relevance to understanding market anomalies.