

Chapter - 10

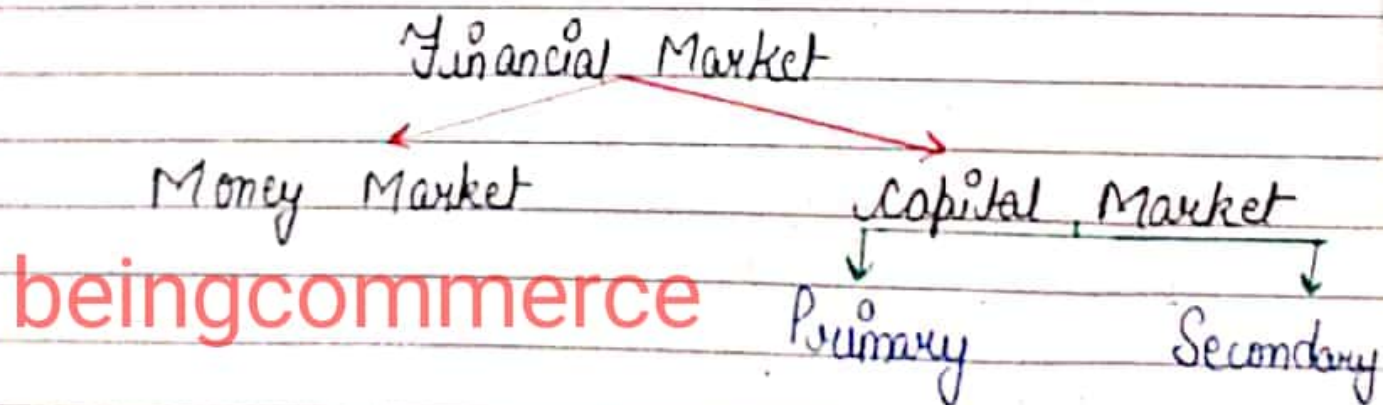
Financial Markets

Concept of Financial Market

- Two main Sectors :-
 - Households which save funds.
 - Business firms, which invest these funds.
- Allocative function - linking the savers and the investors by mobilizing funds between them.
- Financial Intermediation - The process by which allocation of funds is done.
- Financial Market - A market for the creation and exchange of financial assets.
(In continuation)

Functions of Financial Market

- 1) Mobilisation of Savings and Channeling them into the most productive uses
- 2) Facilitating Price Discovery
- 3) Providing liquidity to financial assets
- 4) Reducing the cost of transaction.



Money Market

A market for short term funds. These assets

- are close substitutes for money.
- Location :- No physical location, conducted over the telephone and through the internet.
 - Major Participants :- RBI, commercial Banks, Non Banking finance companies, State governments, large corporate houses and mutual funds.

Money Market Instruments [Imp]

- 1) Treasury Bill :- (Zero Coupon Bonds) :- An instrument of short term borrowing by the Govt. of India.
 - Issued by RBI on behalf of Central Government.
 - Issued at a price which is lower than their face value and repaid at par.
 - Minimum amount - ₹25000
- 2) Commercial Paper - Short term, unsecured, promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period.
 - Maturity Period - 15 days to 1 year
 - Sold at a discount and redeemed at par
 - Bridge Financing - funds raised through commercial papers are used to meet the floatation cost.
- 3) Call money :- Short term finance repayable on demand, used for inter-bank transactions.
 - A method by which banks borrow from

each other to be able to maintain the cash reserve ratio.

- Int. paid on call money loans - Call rate (highly volatile)
- INVERSE relationship between call rates and other short term money market instruments

4) Certificate of Deposit :- CD are unsecured negotiable, short term instruments in bearer form. (Jiska hath usko paisa)

- Can be issued to - Individuals, Corporations and companies.

5) Commercial Bill :- Bill of exchange used to finance the working capital requirements of business firms.

- on being accepted, the bill become a marketable instrument and is called trade bill
- when a trade bill is accepted by commercial bank, it is known as commercial bill.

Capital Market

Facilities and institutional arrangements through which long-term funds both debt and equity are raised and invested.

- Consists of :- Development banks, commercial banks and stock exchange.

I Primary Market

- Other name - New Issue market

- It deals with new securities being issued for the FIRST TIME.
- Investors - Banks, financial institutions, insurance companies, mutual funds and individuals.

beingcommerce

Methods of Flotation

- 1) Offer through Prospectus :- Inviting subscription from the public through issue of prospectus.
- 2) Offer for Sale :- Securities are not issued directly to the public but are offered for sale through intermediaries.
→ Share bank
- 3) Private Placement :- Allotment of securities by a company to institutional investors and some selected individuals.
- 4) * Rights Issue :- Privilege given to existing shareholders to subscribe to a new issue of share.
- 5) E-IPOs :- A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an Initial Public offer.

II. Secondary Market

Imp. Dates :-

- 12 April 1988
- 30 January 1992
- Securities Contracts (Regulation) Act - 1956

Other name - Stock market / Stock Exchange
→ Market for Sale and purchase of **existing securities**.

Stock Exchange **being commerce**

Meaning of Stock Exchange (SE)

According to Securities Contracts (Regulation) Act, 1956, stock exchange means **any body of information**, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

Functions of Stock Exchange

- 1) Providing **liquidity** and **marketability** to existing securities.
- 2) **Pricing** of securities.
- 3) **Safety** of transaction.
- 4) **Contributes** to economic growth.
- 5) **Spreading** of equity cult.
- 6) **Providing scope** for speculation.

Securities & Exchange Board of India (SEBI)

- Established by the government on 12 April 1988.
- Was given a statutory status on 30 January 1992 **through an ordinance**.
- The ordinance was later replaced by an

Act of Parliament known as the Securities and Exchange Board of India Act, 1980

Objectives of SEBI

- (i) To regulate stock exchanges to promote their orderly functioning.
- (ii) To protect the rights and interests of investors.
- (iii) To prevent trading malpractices.
- (iv) To regulate and develop a code of conduct and fair practices by intermediaries.

Functions of SEBI

