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 of new 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.

Financial Market
- Money Market
- Capital Market
  - Primary
  - Secondary

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 Government, 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 (1) term, unsecured (2), promissory note, negotiable and transferable (3) 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 - $\boxed{\text{Call rate}}$ (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, uska 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 ~~institutions~~ institutional arrangements through which long-term funds both debt and equity are raised and invested.

→ Consist 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.

Methods of Floatation

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.

→ (Short Talk)

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

Meaning of Stock Exchange (K)
According to Securities Contract (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 giving 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, 1992

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

Regulatory — Development — Protective

(refer NCERT)