

CHAPTER - 10

FINANCIAL MARKET

1. **Financial Market** Financial market is a link between surplus and deficit units or in other words financial market brings together lenders and borrowers.

2. Functions of Financial Markets

- (i) Mobilisation of savings and channelising them into most productive use
- (ii) Facilitates price discovery
- (iii) Provides liquidity to financial assets
- (iv) Reduces the cost of transaction

3. **Classification of Financial Market** There are two segment of financial market

(i) **Money Market** It is a market for short term funds meant for dealing in monetary assets whose period of maturity is less than one year.

(a) Features of Money Market

Market for short term

No fixed geographical location

Major institutions involved in money market are RBI Commercial Banks, LIC, GIC etc.

Common instruments of money market are call money, treasury bill, CP, CD, commercial bill etc.

(b) Instruments of Money Market

Call money

Treasury bills (T Bills)

Commercial bills

Commercial Paper (CP)

Certificate of Deposits (CD)

(iii) **Capital Market** It is a market for medium and long term funds. It includes all the organisations, institutions and instruments that provides long term and medium term funds. According to VK Bhalla, "Capital market can be defined as the mechanism which channellises saving into investment or productive use. Capital market allocates the capital resources amongst alternative uses. It intermediates flow of savings of those who save a part of their

income from those who want to invest it in productive assets"

(a) Features of Capital Market

Link between savers and investment opportunities

Deals in long term investment

Utilises intermediaries

Determinant of capital formation

Government rules and regulations

(b) **Types of Capital Markets** The main components of capital market are

Primary Market

(New Issue Market) In this market, securities are sold for the first time, i.e., new securities are issued from the company.

Methods of Floatation

The securities may be issued in primary market by the following methods

Public issue through prospectus

Offer for sale

Private placement

Right issue (for existing companies)

e-IPOs

Secondary Market (Stock Exchange)

The secondary market is the market for the sale and purchase of previously issued or second hand securities.

4. Stock Exchange

It defines as “an organisation or body of individuals, whether incorporated or not established for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities.”

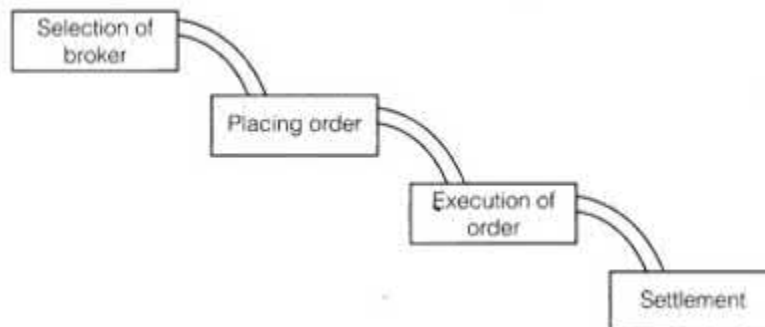
5. Types of Operators in Stock Exchange

- (i) Brokers (ii) Jobbers
- (iii) Bulls (iv) Bears
- (v) Stag

6. Functions of Stock Exchange/Secondary Market

- (i) Economic barometer
- (ii) Pricing of securities
- (iii) Safety of transactions
- (iv) Contributes to economic growth
- (v) Spreading of equity cult
- (vi) Poviding scope for speculation
- (vii) Liquidity
- (viii) Better allocation of capital
- (ix) Promotes the habits of savings and investment

7. Trading Procedure on a Stock Exchange



8. Some Benefits of on Line Stock Exchange

- (i) Demutualisation (ii) Dematerialisation

9. **All India Level Stock Exchange** India has two All India level stock exchanges. These are

- (i) National Stock Exchange of India (NSEI)
- (ii) Over The Counter Exchange of India (OTCEI)

10. Common Features of NSEI and OTCEI

- (i) Nation wide coverage
- (ii) Ringless
- (ii) Screen based trading
- (iv) Transparency
- (v) Incorporated entities backed by financial institutions

11. **NSEI** It was recognised in 1992 and started working in 1994.

It launched the capital market segment in November 1994 and option segment in June 2000 for various derivative instruments.

Objectives and Nature of NSEI are as follows

- (i) Securities traded – Capital market + Money market
- (ii) Payment and delivery in 15 days time period

12. **OTCEI** The OTCEI was incorporated in 1990. The trading started in this exchange in 1992.

This exchange is established on the lines of NASDAQ the OTC exchange in USA.

Objectives and Nature of OTCEI are as follows

- (i) Compulsory market makers to provide liquidity
- (ii) Settlement period of OTCEI is one week

13. **Securities Exchange Board of India (SEBI)** It was set up in 1998 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market.

(i) **Objectives of SEBI**

- (a) Protect the interest of investors.
- (b) Promote and develop stock exchange dealings.
- (c) Regulate the dealings.

(ii) **Functions of SEBI**

(a) **Protective Functions**

- It checks price rigging.
- It prohibits insider trading.
- SEBI prohibits fraudulent and unfair trade practices.

(b) **Developmental Functions**

- SEBI promotes training of intermediaries of the securities market.
- SEBI has permitted internet trading through registered stock brokers.

(c) **Regulatory Functions**

- SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters etc.
- SEBI registers and regulates the working of mutual, funds etc.
- SEBI regulate take over of the companies.
- SEBI conducts enquiries and audit of stock exchanges.