

# Financial Markets

Class 12 - Business Studies - Ch 10

## Concept

A market for the creation & exchange of financial ~~goods~~ assets like shares, bonds, debentures - links savers with borrowers. \*

Surplus units --> Financial Mkt --> Deficit units

<-intermediation

## Functions (4)

1. Mobilisation of savings & channelising them into the most productive use.
2. Facilitating price discovery (demand & supply forces set the price).
3. Providing liquidity to financial assets.
4. Reducing the cost of transactions.

## Classification

* Money Market		Capital Market
short-term, < 1 yr	long-term, > 1 yr	
low risk, low return	higher risk & return	

# Money Market

Market for short-term funds ( $\leq 1$  year).

Players : RBI, Banks, Cos, mutual funds.

Regulated by : Reserve Bank of India.

## Instruments (5)

### 1. Treasury Bills ( T - Bills )

- issued by RBI on behalf of ~~SEBI~~ Gout.
- maturity 14, 91, 182, 364 days .
- zero-coupon ; sold at discount, redeemed at face value .
- Min Rs 25,000 & multiples .

### 2. Commercial Paper ( C P )

- unsecured promissory note .
- by large credit-worthy firms .
- 15 days to 1 year ; Rs 5 lakh & up .

### 3. Call Money

- inter-bank ; 1 day to 15 days .
- rate = Call rate ( fluctuates ) .

### 4. Certificate of Deposit ( C D )

- by Banks & FIs ; 91 d to 1 yr .
- negotiable, unsecured, bearer .

### 5. Commercial Bill

- trade bill ; drawn by seller on buyer ; discounted with bank .

# Capital Market

Long-term funds ( > 1 year ) - shares, debentures, bonds, units of mutual funds.

Two segments : Primary & Secondary.

## Primary Market

Also called New Issue Market . New securities ~~traded~~ issued to public first time.

• Methods of floatation :

- (a) Public Issue thro Prospectus (IPO/FPO)
- (b) Offer for Sale ( via brokers )
- (c) Private Placement ( select inv. )
- (d) Rights Issue ( to existing s/h )
- (e) e-IPO ( on-line public issue )

## Secondary Market

Stock Exchange - existing securities traded between investors ( second-hand ).

Provides liquidity & marketability .

Primary : Co --> Investor - fresh capital

Secondary : Inv --> Inv ← no fresh capital

Key difference - flow of funds vs none.

# Stock Exchange

An organised market where existing securities ( shares, bonds, debentures ) are bought & sold. ( e.g. NSE, BSE )

## Functions

1. Liquidity & marketability of secs.
2. Pricing of securities by supply - demand forces ( price discovery ).
3. Safety of transactions ( SEBI rules ).
4. Contributes to economic growth thro capital formation .
5. Spreading equity cult & investor edu.

## Trading Procedure

- Step 1 : Open Demat A/c + Broker A/c
- Step 2 : Place buy / sell order .
- Step 3 : Broker matches on the Exchange .
- Step 4 : Execution - contract note issued .
- Step 5 : Settlement on T + 2 ( rolling ) .
- Step 6 : Delivery via NSDL / CDSL .

Demat -> Order -> Execution -> T+2

# S E B I

Securities & Exchange Board of India .

Set up 1988 ; statutory body 1992 .

## Purpose

Established to control the malpractices in the securities market & protect investors.

## Objectives

1. Protect interests of investors .
2. Regulate the securities market .
3. Prevent malpractices ( insider trading ) .
4. Develop a code of conduct .

## Functions ( 3 groups )

Protective                      Regulatory                      Developmental

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Protective : ban insider trading,  
prohibit fraud, educate investors .

Regulatory : register brokers, \*audit  
exchanges, regulate take-overs .

Develop. : training of intermediaries,  
promote investor awareness & research .