

Lesson-18

INDIAN FINANCIAL MARKET

Introduction

You are aware that business units have to raise short-term as well as long-term funds to meet their working and fixed capital requirements from time to time. Financial market is the market that facilitates transfer of funds between investors/ lenders and borrowers/ users. It provides security to dealings in financial assets, liquidity to financial assets for investors and ensures low cost of transactions and information. This necessitates not only the ready availability of such funds but also a transmission mechanism and transfer the funds to them as and when required. This is taken care of by the financial markets which provide a place where or a system through which, the transfer of funds by investors/lenders to the business units is adequately facilitated.

Important points from the text:

1. Financial Markets can be classified as :



2. Money market refer to the network of financial institutions dealing in short term funds through instruments like bills of exchanges, promissory notes, commercial papers, treasury bills etc.
3. Capital Market is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and rising of capital by issue of various securities such as shares debentures, bonds, etc.
4. The securities market has two different segments :

Primary Market

Secondary Market.

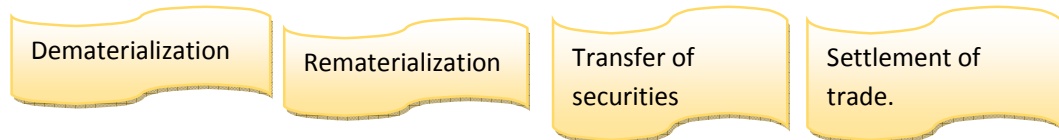
5. The primary market consists of arrangements for procurement of long-term funds by companies by fresh issue of shares and debentures. The secondary market or stock exchange provides a ready market for existing long-term securities.
6. Stock Exchanges are regulated by the Securities Contracts (Regulation) Act and by SEBI. SEBI has initiated a number of reforms in the primary and secondary market to regulate the stock market. Documentary and procedural requirements for listing and trading have been made stricter and foolproof to protect investors' interest. Stock exchange is the secondary market, which provides a place for regular sale and purchase of different types of securities like shares, debentures, bonds & government securities.

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7. Stock exchanges provide many benefits to companies, investors and the society as a whole. But they also suffer from limitations like excessive speculation and fluctuation in prices due to rumors and unpredictable events.
8. The functions of a stock exchanges are :

- Helps in Raising Capital for Business
- Provides liquidity and Marketability
- Determines Securities Price
- Ensures Fair and Profitable Trading
- Generates Employment
- Acts as Economic Barometer
- Promotes Economic Development

9. Services provided by Depository :



10. Benefits of depository services include :

- Reduction in paper work
- Elimination of risk.
- Elimination of bad delivers.
- Increased liquidity of securities.
- Low transaction cost.
- No stamp duty on transfer.
- Emergence of healthy and efficient capital market.

Learn new points:

- A bill of exchange is a written order binding one party to pay a fixed sum of money to another party on demand or at some point in the future.
- A promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument
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- NSEI is the national level stock exchange.
- The main objective of NSEI is to provide a nationwide transparent market.

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- Investor in share market open a demat account to keep these securities in electronic form
- Investors approach depository participant for dematerialization procedure
- NSDL and CDSL are the two depositories in India.

Evaluate yourself

1. Ms. Amrita is an investor in the business at stock exchange, therefore, helps her with role played by SEBI in protecting investor's interest.
2. Mr. X enterprises are a company and Mr. Y is an investor. Explain the importance of stock of exchange from Mr. X and Mr. Y point of view.

Maximize your marks

- Read the chapter carefully
- Go through the learning points
- Get into the little details of the above mentioned important points.