Introduction

This is a learning as well as an exam preparation video.

At the end of the video are practice assignments for you to attempt.

Please go to www.eastpoint.intemass.com/ or click on the link at the bottom of this video to do the assignments for this topic.

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Chapter 10: Financial Market

Chapter 10: Financial Market

Introduction

Financial Intermediation = process of allocating funds from saving surplus units (E.g. households) to saving deficit units (e.g. industries, government etc.)

Alternatives = Banks or Financial markets

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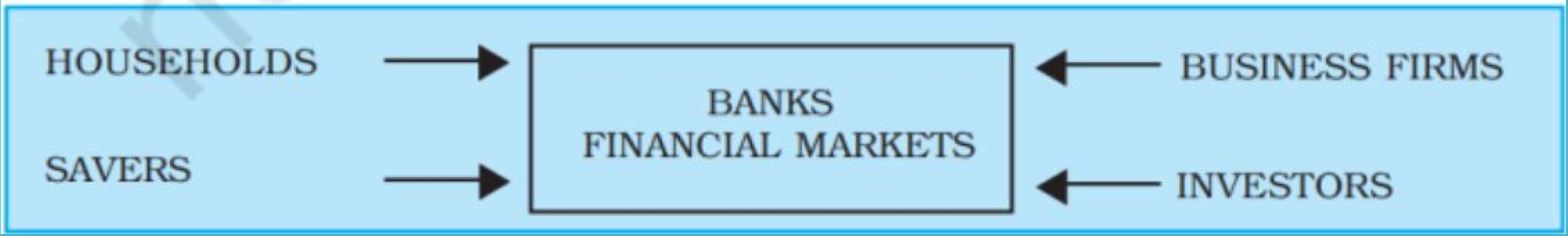
Introduction

Financial Markets are the institutional arrangements by which savings generated in the economy are channelised into avenues of investment by industry, business and the government. It is a market for the creation and exchange of financial assets.



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Functions of Financial Market:

1. Mobilization of savings: It is an allocative function of financial market that it facilitates transfer of people's saving to investors.

2. Price fixation: price is determined from the forces of demand and supply. The interaction between demand and supply helps to establish a price for financial asset.

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Functions of Financial Market:

3. Provides liquidity to financial assets: shareholders can sell their share easily through mechanism of financial market.

4. Reduce the cost of transactions: provides valuable information to buyers and sellers of financial assets & helps in saving time money and efforts.

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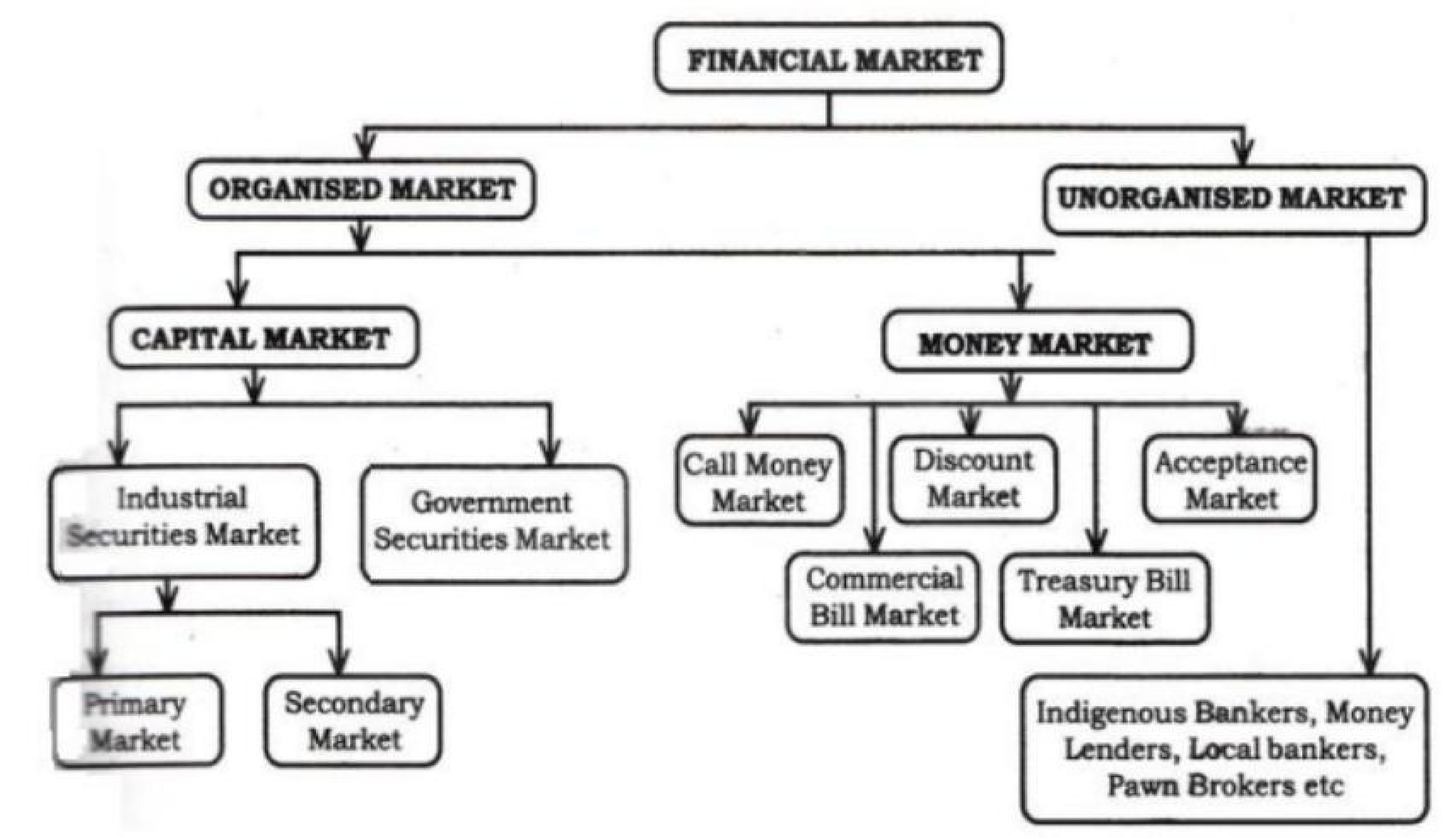
Types of Financial Markets:



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Money Market:

It is a market for short term funds/securities whose period of maturity is up to one year. The major participants in the money market are RBI, Commercial Banks. Non-Banking Finance Companies, State Government, Large Corporate Houses and Mutual Funds.

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Money Market:

The main instruments of money market are as follows:

1. Treasure Bills: They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and arc repaid at par. They are available for a minimum amount of Rs.25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

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Money Market:

2. Commercial Paper: It is a short term unsecured promissory note issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

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Money Market:

3. Call Money: It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.

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Money Market:

4. Certificate of Deposit: It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals. Corporations and companies for raising money for a short period ranging from 91 days to one year.

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Money Market:

5. Commercial Bill: It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

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Capital Market:

It is a market for long term funds where debt and equity are traded. It consists of development banks, commercial banks and stock exchanges.

The capital market can be divided into two parts:

1. Primary Market.
2. Secondary Market.

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Capital Market:

Primary Market: It deals with the new securities which are issued for the first time. It is also known as the New Issue Market. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. It has no fixed geographical location and only buying of securities takes place in the primary market.

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Capital Market:

Methods of Floatation of New Issues in Primary Market:

1. Offer through Prospectus: It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

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Capital Market:

2. Offer for Sale: Under this method, securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.

3. Private Placements: It refers to the process in which securities are allotted to institutional investor and some selected individuals.

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Capital Market:

4. Rights Issue: It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

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Capital Market:

5. e-IPOs: It is a method of issuing securities through an on-line system of stock exchange. 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 e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

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Capital Market:

Secondary Market: It is also known as the stock market or stock exchange where purchase

and sale of existing securities takes place. They are located at specified places and both the

buying as well as selling of securities takes place.

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Difference between Primary Market and Secondary Market:

Basis	Primary Market	Secondary Market
Securities	Only new securities are traded	Existing securities are traded
Price of Securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces by the demand and supply of the securities.

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Difference between Primary Market and Secondary Market:

Basis	Primary Market	Secondary Market
Purchase and Sale	Securities are sold to investors directly by the company or through intermediary.	Investors exchange ownership of securities.
Place of Market	There is no fixed geographical location.	Located at specified places.of the securities.

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Difference between Primary Market and Secondary Market:

Basis	Primary Market	Secondary Market
Medium	Only buying of securities takes place.	Both buying and selling of securities can take place.

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Stock Exchange/Share Market:

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa.

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Stock Exchange/Share Market:

Following are some of the important functions of a Stock Exchange:

1. Providing liquidity and Marketability to Existing Securities: Stock Exchange provides a ready and continuous market for the sale and purchase of securities.
2. Pricing of Securities: Stock Exchange helps in constant valuation of securities which provide instant information to both buyers and sellers and thus helps in pricing of securities which is based on the forces of demand & supply.

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Stock Exchange/Share Market:

3. Safety of Transaction: The members of a stock exchange are well regulated, who are required to work within the legal framework. This ensures safety of transactions.

4. Contributes to Economic Growth: Stock exchange provides a platform by which savings get channelized into the most productive investment proposals, which leads to capital formation & economic growth.

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Trading Procedure on a Stock Exchange:

1. Selection of Broker: in order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.
2. Placing the order: After selecting a broker, the investors specify the type and number of securities they want to buy or sell.
3. Executing the order: The broker will buy or sell the securities as per the instructions of the investor.

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Stock Exchange/Share Market:

5. Spreading of Equity Culture: Stock exchange helps in educating public about investments

in securities which leads to spreading of Equity culture.

6. Providing Scope for Speculation: Stock exchange provides scope within the provisions of

law for speculation in a restricted and controlled manner.

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Trading Procedure on a Stock Exchange:

4. Settlement: Transactions on a stock exchange may be carried out on either cash basis or carry over basis (i.e. badla). The time period for which the transactions are carried forward is referred to as accounts which vary from a fortnight to a month. All transactions made during one account are to be settled by payment for purchases and by delivery of share certificates, which is a proof of ownership of securities by an individual. Earlier trading on a stock exchange took place through a public outcry or auction system which is now replaced by an online screen based electronic trading system. Moreover, to eliminate, the problems of theft, forgery, transfer, delays etc. an electronic book entry from a holding and transferring securities has been introduced, which is called process of de materialization of securities.

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Objectives of SEBI:

1. To regulate stock exchange and the securities market to promote their orderly functioning.
2. To protect the rights and interests of investors and to guide & educate them.
3. To prevent trade mal practices such as internal trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers,

merchant bankers etc.

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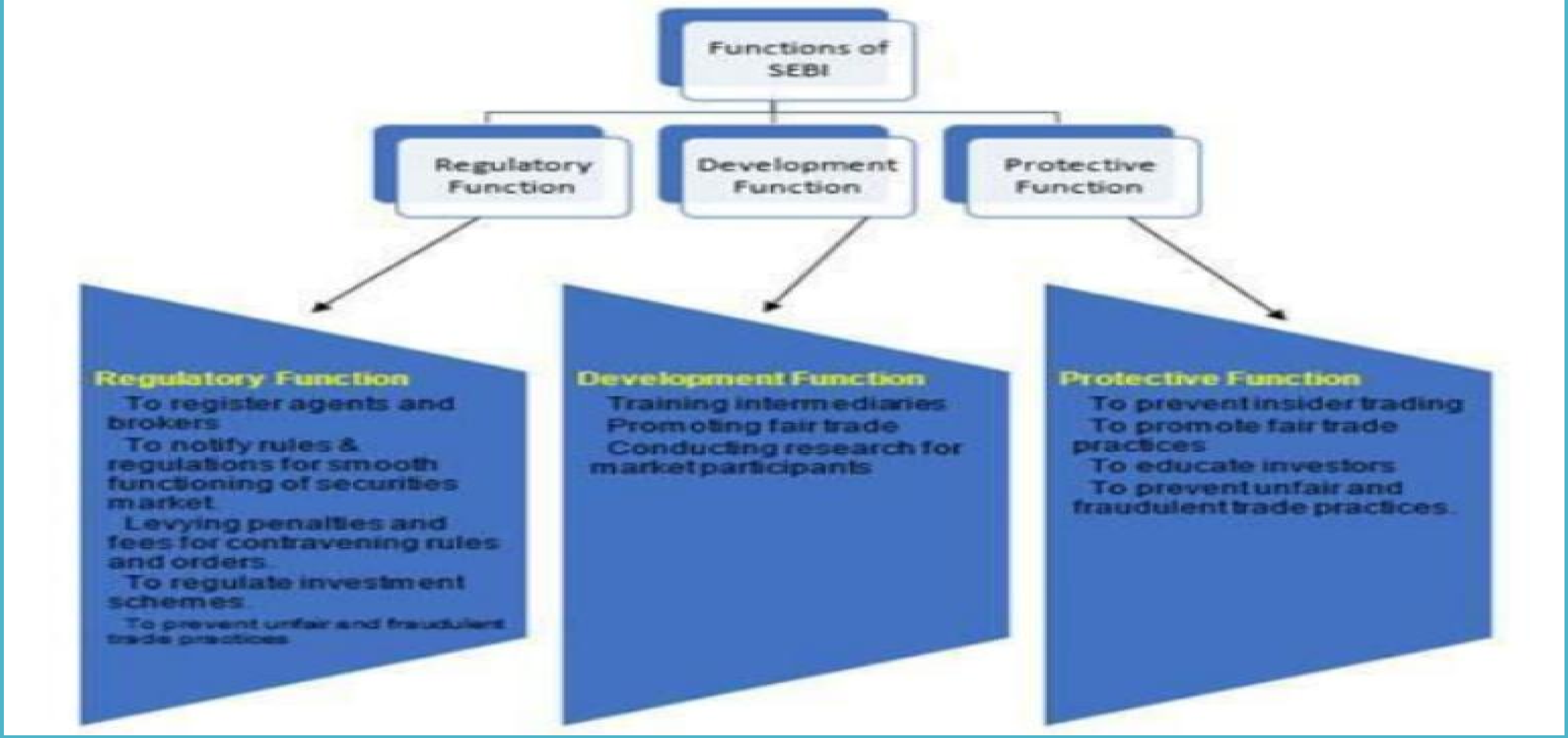
Functions of SEBI:



Practice Assignments, Exam Prep Assignments for The CBSE Business Studies

1. You may now proceed to try out the exam preparation assignments.

2. **ALL** assignments will be marked and feedback will be given.

3. Should you need to speak to one of our tutors send your email to administration@intemass.com

4. Please proceed to the link www.eastpoint.intemass.com at the bottom of this video to commence with your practice.

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