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A REVIEW PAPER ON FINANCIAL MARKET

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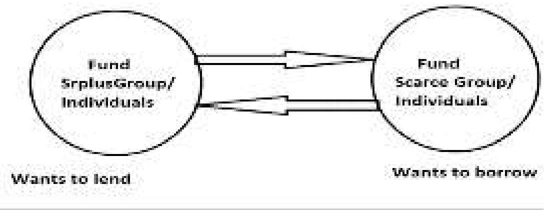
Abstract

In this paper we will discuss about financial market. Different types of financial market: i.e. Money market and Capital market. Further sub categories of Money market and Capital market. Money market is classified as Treasury Bills, Cash Management Bills, Repo and Reverse Repo, Certificate of Deposits, Commercial Papers, Commercial Bills, Call Money Market and Capital is classified as Government Dated Securities Market, Industrial Securities Market, Development Financial Institutions, and Financial Intermediaries.

I. Introduction

The market of an economy, where funds are transacted between the fund surplus and fund scarce individuals and groups is known as financial markets. In Financial market financial securities are paid at lower transaction cost.



Financial market is classified as Money market and Capital market. Money market is also known as short term market, here funds is required up to 364 days(<1 year). Capital market is also known as long term market, here funds is required for 365 days and more(1 year and above).

II. Types of Financial Market

1) Money Market

In money market money is traded between cash-surplus individuals or groups and cash-scarce individuals or groups. It is a short term lending up to 364 days(<1 year). Instruments which are traded can facilitate quick conversion to money. Interest rate depends on demand and supply of cash. Money market takes care of the financial mismatch of day to day operations of organizations. In 1985 Chakravarthi committee underlined the need for organized money market.

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1.1) **Treasury Bills:**

Also Known as T-Bills. T-Bills are introduced in 1917 and issued by RBI on behalf of central government. T-Bills used by the central government to full fill short term liquidity requirements up to 364 days. T-Bills issued by central government for 91-days(issued on every Wednesday by government), 182-days(Alternate Wednesday which is not come in working/reporting week i.e. 1^{st} and 3^{rd} Wednesday) and 364-days(2^{nd} and 4^{th} Wednesday). In addition to governments, they also functions as short term investment avenues for banks and financial institutions. Trading is done on discounted rate; hence they are also called discounted instruments. These are eligible as security for SLR. Minimum amount of T-Bills is 25,000 Rs(Further on multiple of 25,000 Rupees).

** Discounted Rate:- If value of T-Bill is 1 Lakh-Rupees then bank will pay less than 1 Lakh-Rupees and after 1 year they will get 1 Lakh-Rupees i.e. value of TB less than their face value**.**

1.2) **Cash Management Bills:**

They are also discounted instruments like T-Bills issued by RBI on behalf central government. They are for maturities less than 91 days. They were introduced in 2010 by RBI for short term liquidity. Most of the features are similar to T-Bills.

1.3) **Repo and Reverse Repo:**

These were introduced by RBI in December, 1992 and November, 1996 respectively.

Repo rate is the rate of interest the RBI charges from its client(mostly Schedule Commercial Banks) for short term borrowing. It is used to adjust liquidity in banks day to day operations. Most of the western economies call it, “rate of discount”.

Reverse repo rate is interest rate at which banks park additional funds with RBI. This will be for short term and they also earn interest. It is kept 100 basis points below Repo Rate. This facility can be used by banks in case of surplus funds and interest rates are low.

Both Repo Rate and Reverse Repo Rate are Liquidity Adjustment Facility(LAF).

1.4) **Certificate of Deposit:**

They were introduced in 1989 and can be issued by scheduled commercial banks or FIs(as authorized by RBI). Minimum amount for Certificate of Deposit is 1 Lakh-Rupees(Further on multiple of 1 Lakh-Rupees). It is a discounted instrument. Time period for Certificate of

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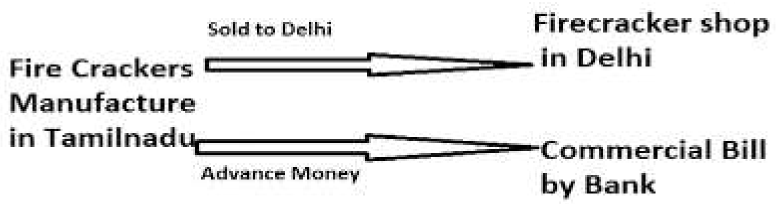
Deposit is 7-days to 1 year(if issued by commercial bank) and 1year to 3year(if issued by FIs).

1.5) **Commercial Papers:**

Commercial Paper was introduced in 1990. It is privately placed instrument. It is unsecured money market instrument issued in the form of promissory note. Companies, Primary Dealers, Financial Institutions are permitted to issue commercial paper. Net worth of the company should not be less than 4Crore Rupees. Time period for Commercial Paper is 7 days to 1 year. Minimum amount for Commercial Paper is 5 Lakh-Rupees

1.6) **Commercial Bills:**

These are the instruments that help companies to get advance payment for the invoices they raise after making sales to their customers. They helpcompanies to get money in advance for the sales they make.



1.7) **Call Money Market:**

In Call Money Market transaction takes place on overnight basis. Funds are transferred for a period between 1 to 14 days normally. All the Scheduled Commercial Banks, Co-Operative Banks and Primary Dealers(PDs) participate in the auction(RRBs and Land Development Banks are not eligible to participate). Interest rate is market driven.

**Primary Dealers are institutions who will transact in this money market instruments and government securities, SBI DFHI Ltd. And PNB GILTs Ltd.

2) **Capital Market:**

It is a long term lending greater than 365 days. Government Dated Securities are risk free Securities. If security is more than 1 year, it is called Dated Securities. All the securities are managed by RBI. Auction held electronically on PDO-NDS platform(Public Debt Office- Negotiable Dealing System).They can also be purchased through primary dealers in secondary market. Normally SCBs, FIs participate in auction of G-Sec. Industrial Securities Market instruments used are shares, bonds, debentures. Securities regulator(SEBI), stock exchanges, different share indices like SENSEX, NIFTY are associated with it. Development Financial Institutions(DFIs) primarily intended to fulfill capital requirements of industry/infrastructure. In other words we can say, to take care of "project finance". After independence banks were not in position to lend for industry and long term projects due to lesser deposits. However, after economic reforms of 1991, Industries have got other source of tapping funds at cheaper rates and also the base of funds for commercial banks increased rapidly.) Financial Intermediaries act as intermediaries for arranging long term finance or act as facilitators. FIs are Investment banks, Merchant Banks, Mutual Funds, Leasing Companies, Venture Capital.

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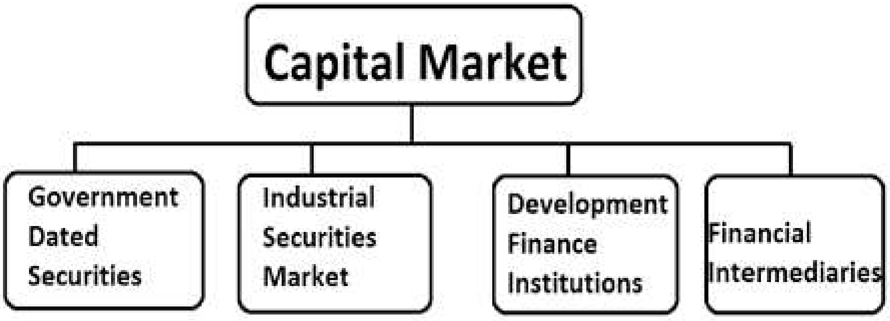

III. Conclusion

This paper explains the question of whether the financial markets are efficient i.e prices demanded are fair and reflects all types of known and relevant information about investments. This paper explains the different types of financial marketing such as Money Market, Capital Market. Financial markets have particular features that make them unique. They are considered to have Cardinal regulations on trading, clear pricing strategy and also on costs and fees which are well defined. Financial markets are institutions and procedures that facilitate transactions in all types of financial securities.

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