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Financial and Capital Markets Today

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ABSTRACT

Financial market is a market where financial instruments are exchanged or traded and helps in determining the prices of the assets that are traded in and is also called the price discovery process. The financial market development is one of the key drivers of economic growth in developed and developing countries.

The empirical evidence suggests that the development of stock markets in China, USA, United Kingdom, Japan and Hong Kong have independently a strongly positive correlation with their economic growth. The result brings out the stock market in present days and its types include capital and money markets. And trading instruments, institutions of capital and money market.

Keywords: *capital and money markets, exchanged, financial market, growth*

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INTRODUCTION

A financial market is a market that brings buyers and sellers together to trade in financial assets such as stocks, bonds, commodities, derivatives and currencies. The purpose of a financial market is to set prices for global trade, raise capital and transfer liquidity and risk. Although there are many components to a financial market, two of the most commonly used are money markets and capital markets.

Money markets are used for a short-term basis, usually for assets up to one year. Conversely, capital markets are used for long-term assets, which are any asset with maturity greater than one year. Capital markets include the equity (stock) market and debt (bond) market. Together the money and capital markets comprise a large portion of the financial market and are often used together to manage liquidity and risks for companies, governments and individuals.

CAPITAL MARKET

1. Capital market is the market for leading and borrowing of medium and long-term funds.
2. The demand for long-term funds comes from industry, trade, agriculture and government (central and state).
3. The supply for funds comes from individual savers, corporate savings, banks, insurance companies, specialized financial institutions and government.

New York Stock Exchange is one of the largest secondary capital markets in the world. As of 2013, most of the NYSE’s trades are executed electronically, but its hybrid structure allows some trading to be done face to face on the floor. Most 21st century capital market transactions are executed electronically, sometimes a human operator is involved, and sometimes unattended computer systems execute the transactions, as happens in *algorithmic trading.*

Capital market has three different categories:

1. Government securities market: It is also called Gilt-edged market. It deals in interest bearing and dated government securities. This market is regulated by the RBI.
2. Corporate Debt Market: This market floated by public sector units, nationalized banks and financial institutions. Debentures floated by corporate.
3. The Equity Market: Corporate raise preference/equity share capital in this market.

These shares can be sold/purchased and thus provide liquidity to markets.

TYPES OF CAPITAL MARKET

- Primary market (new issues market)
- Secondary market (old issues market)

Primary Market

It is a market for new issues. It deals with those securities that are issued to the public for the first time. So, it is also called New Issues Market. It deals with the raising of fresh capital in the form of equity shares, preference shares, debentures, bonus, right issues, deposits, etc.

Secondary Market

The secondary market deals with securities that are already issued by companies. It facilitates trading in securities and operates through stock exchanges. The secondary market helps to provide liquidity and marketability to the outstanding equity and debt instruments.

The three types of stock exchanges are:

- Regional Stock Exchange
- National Stock Exchange
- Over the Counter Exchange of India

FINANCIAL INSTITUTIONS

Financial institutions play a major role in capital markets. They provide medium/long-term loan to industrial and other sectors and also undertake project feasibility studies and surveys.

These institutions include Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (ICICI), Industrial Development Bank of India (IDBI), Industrial Investment Bank of India (IIBI), The Export and Import Bank of India (EXIM BANK), State Finance Corporations (SFCs), state Industrial Corporations (SIDCs), etc.

SCREEN-BASED TRADING

The Indian Stock Exchanges underwent modernization with computerized Screen Based Trading System (SBTS). It electronically matches orders on a strict price/time priority. It considerably reduces time, cost, risk of error and fraud and there by improves operational efficiency.

SECURITIES AND EXCHANGE BOARD OF INDIA

- The Securities and Exchange Board of India (SEBI) was established as a non-statutory organisation but it received its statutory status in January 1992.
- SEBI has wide regulatory powers and is a very important constituent of the financial regulatory network of India.
- In fact, it is under the overall control of the Finance Ministry of the country. SEBI aims at protecting the interest of investor, brining professionalism in the working of intermediaries in the capital markets and creating a good financial environment in the markets.

MONEY MARKET

Money market is the market in which short-term funds are borrowed and lent. Money market deals in cash and also in trade bills, promissory notes and government papers which are drawn for short periods.

INDIAN MONEY MARKET INSTRUMENTS

It has become popular after independence specifically after nationalization banks in 1969.In present the following instruments are traded.

- Call Money: Call money is a method of borrowing and lending for one day.
- Commercial Bills: Banks are discounting Commercial Bills drawn by business organization.
- Treasury Bills: Treasury Bills are short-term promissory notes issued by RBI on behalf of Central Government for raising funds.
- Certificate of Deposits: bank can raise short-term funds; say for 3 or 6 months.
- Commercial paper: It is a short-term money market instrument issued by eligible corporate for raising funds to meet working capital needs.
- Short-term money market: Short-term money market, funds are borrowed and lent for a maximum period of 14 days.

DEALERS IN MONEY MARKET

- Governments
- Business concerns
- Banks
- Stock exchange brokers
- Dealers in government

INDIAN MONEY MARKET

In Indian money market plays a vital role in the progress of economy. But it is not well developed when compared with American and London money market. In this market, short-term funds are borrowed and lend. The Reserve Bank of India is regulator of the money market.

STRUCTURE OF INDIAN MONEY MARKET

- Organized sector
- Unorganized sector
- Cooperative sector

CONCLUSION

Financial market provides finance to trade and industry when needed. Thus, we can say that capital markets play a crucial role in the economic development of a nation. A sound and efficient capital market is one of the most instrumental factors in the development of a nation. The stock market development is one of the key drivers of economic growth in developed and developing countries. SEBI has taken various measures to bring sufficiency in the capital markets leading to growth and development of the economy.

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