Class 12
Business Studies

Chapter 10_Focus Area 2022

FINANCIAL MARKET

Ajith Kanthi Wayanad

Financial market

It is a market for the creation and exchange of financial assets such as shares, debentures, bonds and government securities

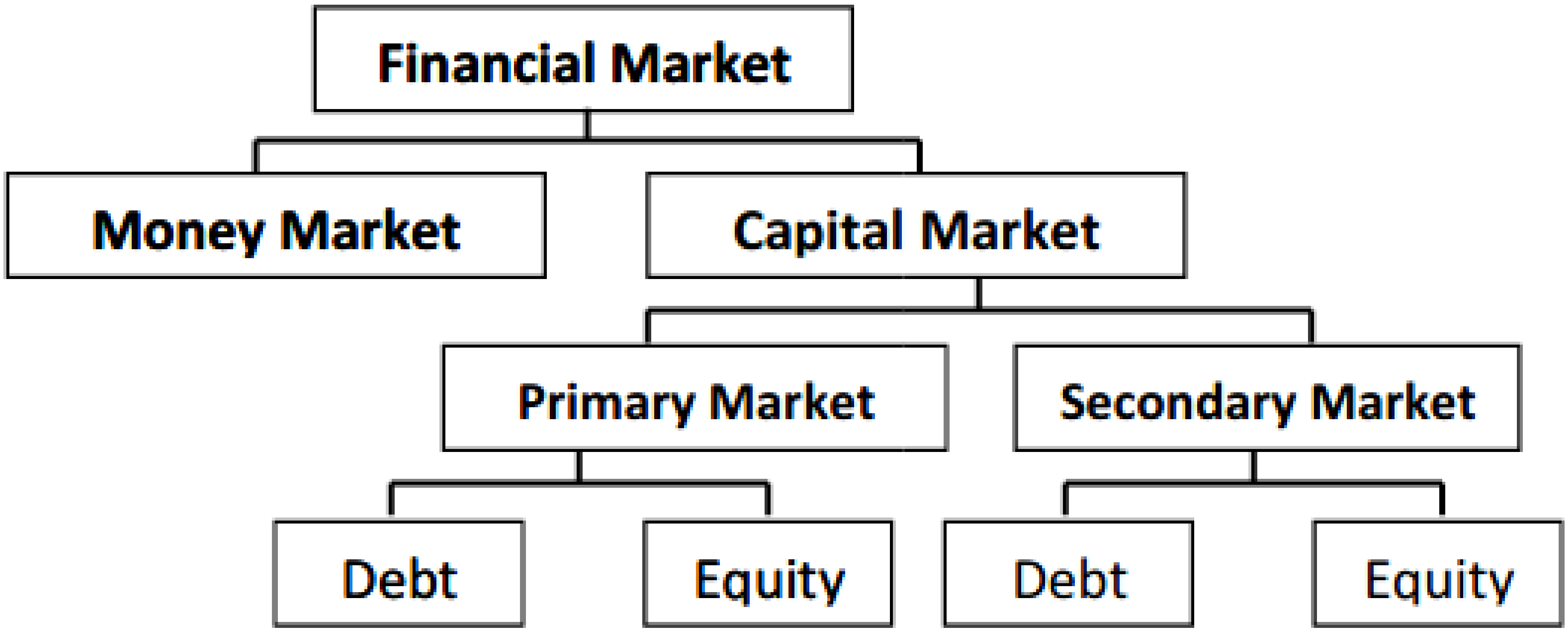
It is a network of institutions which provide short, medium and long term funds

Financial market

Financial markets make possible the transfer of money from the investors to the entrepreneurial borrowers

They bring together the lenders of funds and borrowers of funds

Classification of financial markets



Money Market

Ajith Kanthi Wayanad

Money Market

Money market is the market for short term funds

Short term funds are meant for a period of up to one year

Money market is not usually located at a particular place

It is a term used to describe all organizations and institutions that deal in short term debt instruments.

Money Market

It makes possible the raising of short term funds for meeting the working capital needs and temporary deployment of excess funds to get returns

Features of Money Market

Features of Money Market

1. Participants

RBI, Commercial banks, non-banking finance companies, State governments, large corporate houses and mutual funds

Features of Money Market

2. Instruments

Short term debt instruments are traded

Features of Money Market

3. Investment outlay

Huge sums of money is being transacted

Features of Money Market

4. Duration

One day to one year

Features of Money Market

5. Liquidity

It enjoys high degree of liquidity

Features of Money Market

6. Safety

Short term duration ensures grater safety

Features of Money Market

7. Location

No physical location, activities conducted over telephone or internet

Features of Money Market

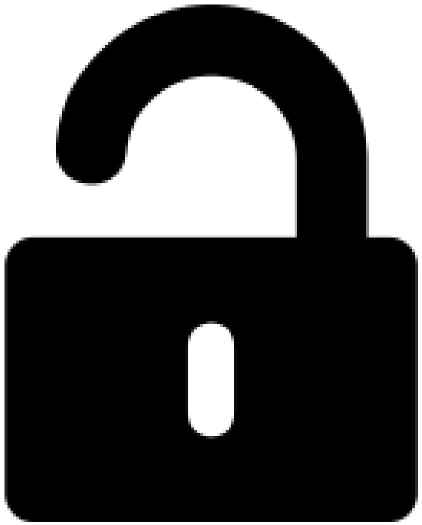
8. Returns

Comparatively less returns

Features of Money Market

9. Unsecured

Instruments traded are unsecured

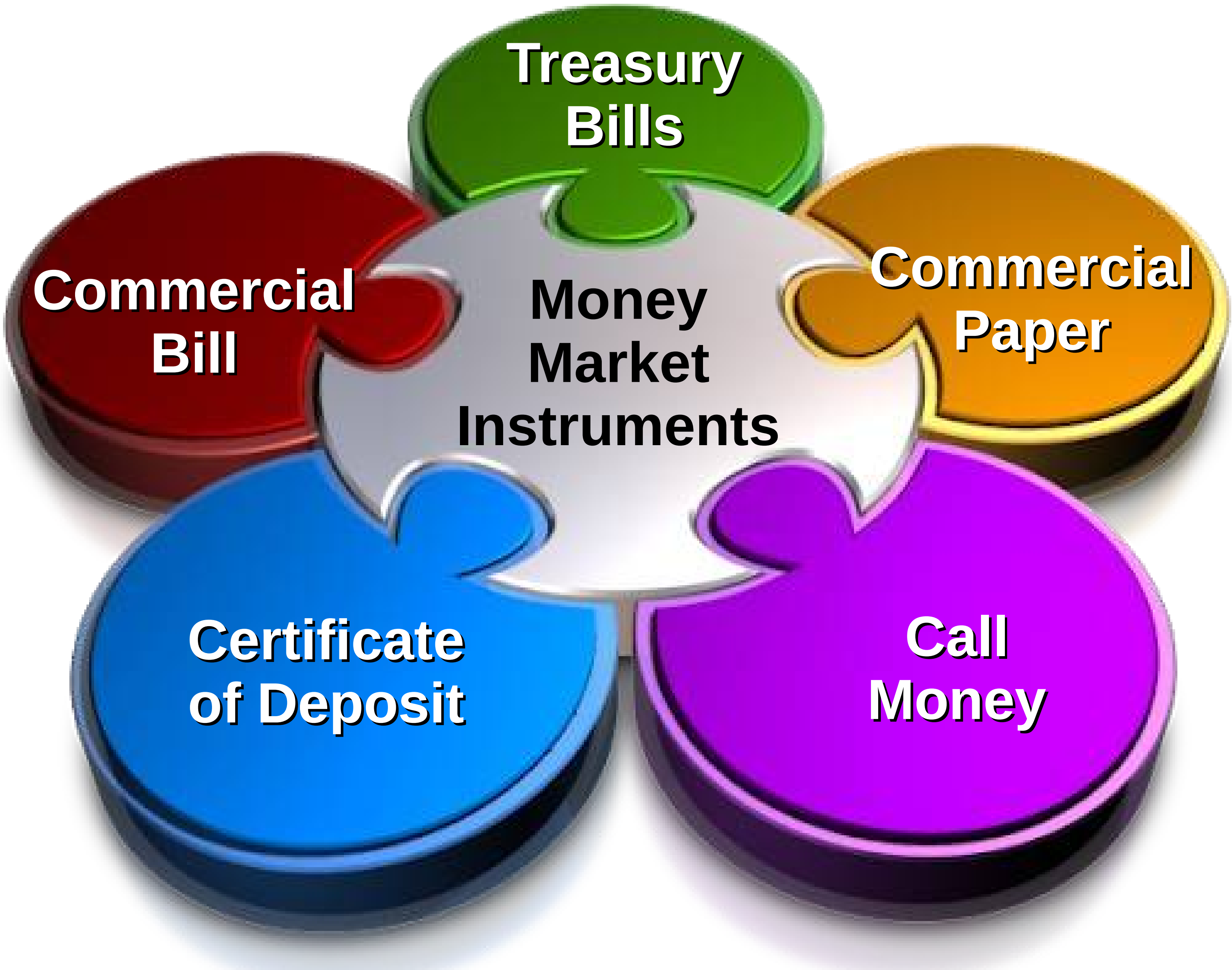


Features of Money Market

1. Participants
2. Short term instruments
3. Investment outlay
4. Duration
5. Liquidity
6. Safety
7. Location
8. Returns
9. Unsecured

Money Market Instruments

Money Market Instruments



Money Market Instruments

1. Treasury Bills (T-Bills / Zero Coupon Bonds)

These are issued by RBI on behalf of Central Government

Maturity less than one year

It is an instrument for short term borrowings by Government of India

T-Bills

They are issued in the form of promissory notes and freely transferable as it comes under Negotiable Instrument Act

They are issued at a price which is lower than their face value and repaid at par, the difference between issue price and redemption value is called **discount**

It is available for a minimum amount of Rs. 25,000 and in the multiples thereof

Money Market Instruments

2. Commercial Paper (CP)

It is an unsecured promissory note issued to the public with a fixed maturity period ranging from 15 days to 1 year

EXAMPLE

- **Deepak Nitrite issues commercial paper of Rs 30 crore**
- Jul 17, 2015 at 15:10 | Source: Moneycontrol.com
- Deepak Nitrite has informed that the Commercial Paper of Rs 30 crore issued on April 17, 2015, has been repaid on July 16, 2015. Further, the Company has issued Commercial Paper (CP) for Rs 30 crore value dated July 17, 2015. This has been subscribed by SBI Fund Management Private Limited having maturity on October 15, 2015.

Since being unsecured, this is issued by highly reputed corporate entities

Issuing commercial paper in India as a money market instrument took place in 1989-90.

Commercial Paper

This serves as an important source of working capital and for bridge financing for raising long term funds from capital market

Commercial banks and mutual funds contribute towards this kind of instruments

Eg: To meet flotation cost, brokerage, advertising, printing share applications etc.

Money Market Instruments

3. Call Money

In this case day-to-day surplus funds of banks and other financial institutions are dealt with

The banks with surplus funds lend other banks that are facing deficiency

Call Money

Duration of call money is from one day to 15 days and is repayable on demand, either by the lender or by the buyer

Interest paid on call money is called **Call rate**

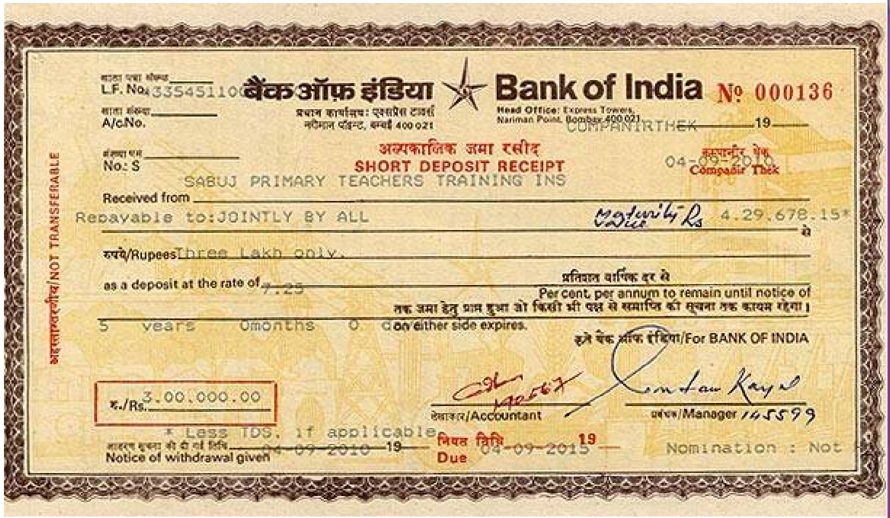
Money Market Instruments

4. Certificate of Deposit (CD)

It is an unsecured, negotiable, short term instrument in bearer form, issued by commercial banks and financial institutions to individuals, corporations and companies

Maturity period 3 months to 12 months

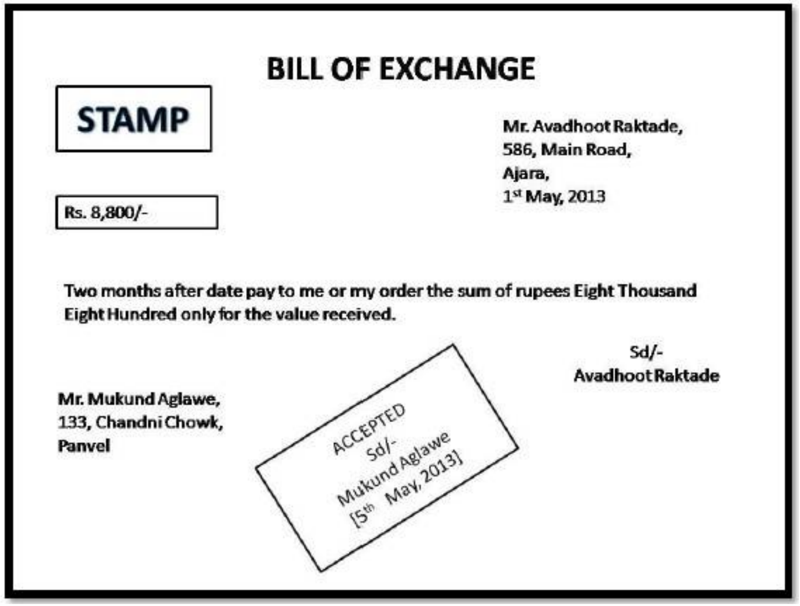
These are issued at a discount and redeemed at par



Money Market Instruments

5. Commercial Bills (Trade Bill)

This is a bill of exchange used to finance working capital requirements of a business



It is a short period, negotiable and self-liquidating instrument used to finance credit sales

Commercial Bill

Stamp		Kalpetta 01-01-2014

Rs.10,000/-

Two months after date pay to me or my order the sum of Rupees Ten thousand only, for value received.

To	Accepted	
Mr. K. Krishnan	Sd/-	
General Merchants,	K. Krishnan	Sd/-
Kalpetta	General Merchants, Kalpetta	S. David

Commercial Bill

On credit sales, the seller (drawer) draws the bill and the buyer (drawee) accepts it, by putting his signature on it

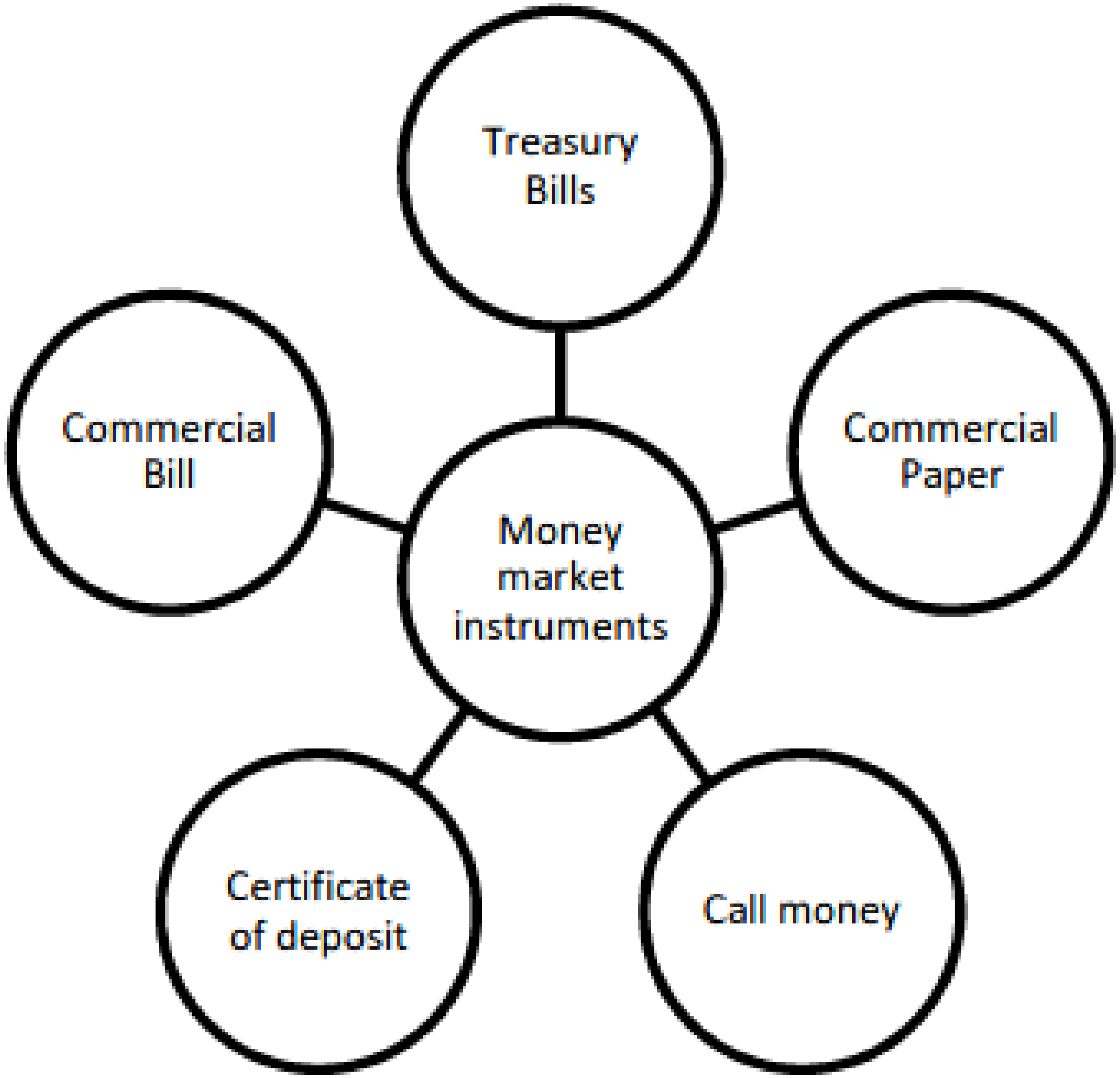
On acceptance, the bill becomes a marketable instrument and is called a **trade bill**

Commercial Bill

This bill can be discounted with a bank if the seller requires funds before maturity

When a trade bill is accepted (discounting of bills) by a commercial bank, it is known as commercial bill

Money Market Instruments



Capital Market

Ajith Kanthi Wayanad

Capital Market

Capital market is an institutional arrangement by which savings are channelized into investment avenues

It enables the borrowers to raise funds for their purpose

Similarly, it gives opportunities to the lenders to wisely invest their funds

Capital Market

The borrowers raise required funds through issue of securities like shares, debentures, bonds etc.

A security means a certificate of title evidencing investment made in the capital or debt of any entity

Features of Capital Market

Features of Capital Market

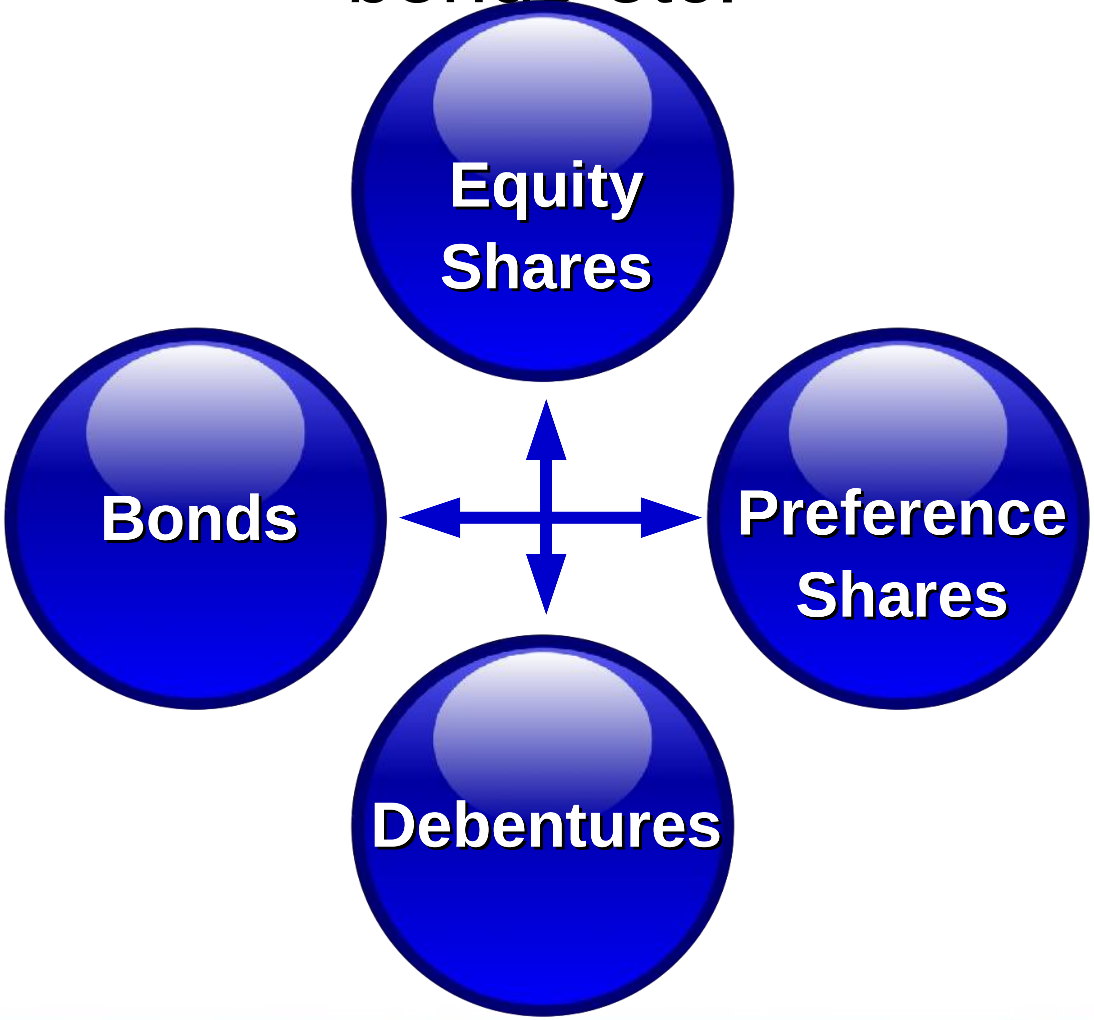
1. Participants

Financial institutions, banks, corporate entities, foreign investors and individual investors.

Features of Capital Market

2. Instruments

Equity shares, preference shares, debentures, bonds etc.



Features of Capital Market

3. Small Investment outlay

The value of one unit is Rs.10, Rs. 100 etc. and they are traded in lot of 1, 5, 50, 100 etc.

Features of Capital Market

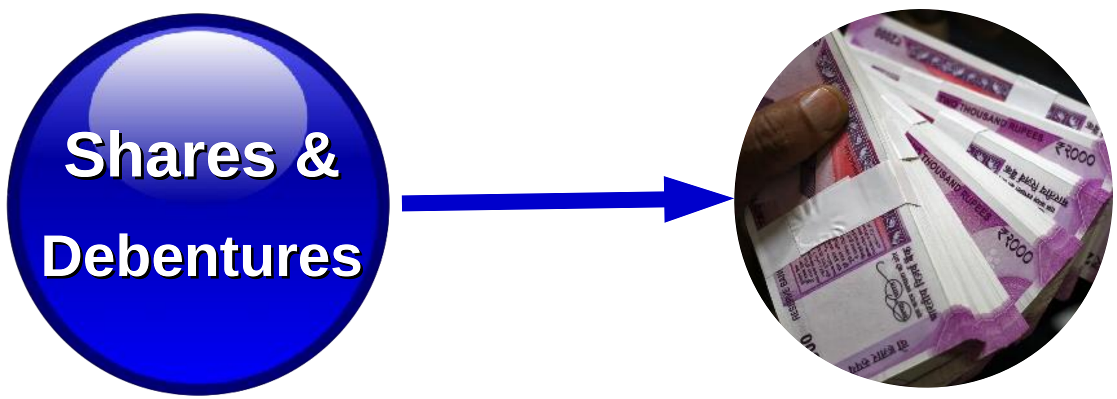
4. Duration

Medium and long term

Features of Capital Market

5. Liquidity

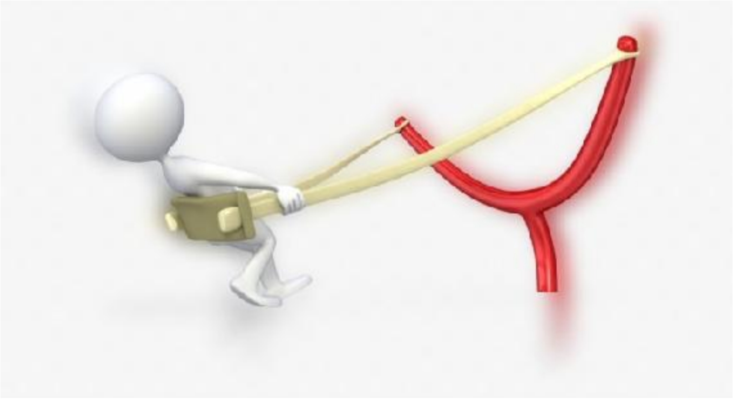
High liquidity as they are marketable in stock exchanges



Features of Capital Market

6. High risk

There no much safety of investment and returns



Features of Capital Market

7. Expected Return

Normally the return on investment is high than money market

Features of Capital Market

1. Participants
2. Instruments
3. Small Investment outlay
4. Duration
5. Liquidity
6. High risk
7. Expected Return

Distinction between Money market And Capital market

Money Market Vs. Capital Market

1. Term

Money Market	Capital Market
It is a market for short term instruments having a maturity period of less than one year	It is for medium and long term instruments having maturity period of more than one year

Money Market Vs. Capital Market

2. Purpose

Money Market	Capital Market
It helps to meet the working capital needs	It helps in meeting fixed capital needs

Money Market Vs. Capital Market

3. Instruments

Money Market	Capital Market
The instruments in money market are Bill of exchange, treasury bills, certificate of deposits, commercial papers etc.	The instruments are equity shares, preference shares, debentures, bonds etc.

Money Market Vs. Capital Market

4. Nature

Money Market	Capital Market
It is a wholesale market where the instruments have large face value	It is a retail market where the instruments have small face value

Money Market Vs. Capital Market

5. Participants

Money Market	Capital Market
The central bank, commercial banks and other financial institutions take part in the market	Stock exchanges, Merchant banks, Issue houses and many financial intermediaries take part in the market

Money Market Vs. Capital Market

6. Support of Secondary Market

Money Market	Capital Market
Money market instruments do not have an active secondary market	Capital market instruments have both primary and secondary markets

Money Market Vs. Capital Market

7. Medium

Money Market	Capital Market
Money market transactions normally take place over telephone and other ways	Capital market transactions normally take place at stock exchanges

Money Market Vs. Capital Market

8. Regulations

Money Market	Capital Market
The market regulator is the central bank of the country	There is a separate regulator in the capital market
In India it is RBI	In India it is SEBI

Sl No.	**Money Market**	**Capital Market**
1	Short term instruments	Medium & Long term
2	Working capital needs	Fixed capital needs
3	Bill of exchange, T-Bills etc.	Shares, debentures etc.
4	Wholesale market	Retail market
5	Banks and financial institutions are the participants	Stock exchange, Merchant banks etc.
6	No support of secondary market	Both primary and secondary market
7	Take place over telephone etc.	Take place at Stock Exchanges
8	Controlled by RBI	Controlled by SEBI

Secondary Market
(Stock Exchange)

Secondary Market

It is the market for the purchase and sale of second hand or listed securities

Shares, debentures, bonds etc. which have already been issued by companies or government are traded in this market

Secondary Market

It consists of buyers and sellers of securities and brokers as intermediaries

The investors can buy and sell securities only through brokers

Secondary markets are also known as **stock exchanges**

Stock Exchange

Stock Exchange

Stock exchange is an organized market where second hand securities are bought and sold

Stock Exchange

Trading in securities takes place inside the stock exchange at a place known as the trading ring

Only the members (brokers) are authorized to trade here

Stock Exchange

In the traditional method of trading on the ring, trading actually resembles an auction

Brokers of intending sellers and buyers will shout quoting their prices

When the prices coincide, a deal will be struck

Stock Exchange

Online trading in securities is facilitated through a computer network wherein one can buy or sell securities just by sitting in front of the broker's computer

Computer matches the buyer's quotation and a deal is struck

Functions of Stock Exchange

Ajith Kanthi Wayanad

Functions of Stock Exchange

1. Liquidity and marketability to investment

Secondary market provides a continuous market to the listed securities, so that investors enjoy liquidity to their investment

They could sell securities with them and buy another

Functions of Stock Exchange

2. Pricing of securities

A security is issued in the market at a price known as the issue price

Over a period of time, it reaches its true level through the interaction of the forces of demand and supply in stock exchange

Functions of Stock Exchange

3. Safety of transactions

The rules and regulations ensures safety and fair dealings to investors

Functions of Stock Exchange

4. Contributes to economic growth

Stock exchanges contribute to economic growth of the nation through capital formation

Functions of Stock Exchange

5. Spreading of equity cult (trend)

Stock exchanges can take effective measures in educating public about investments

Functions of Stock Exchange

6. Providing scope for speculation

A reasonable degree of healthy speculation is needed to ensure liquidity and price continuity in securities

Functions of Stock Exchange

7. Economic barometer

Business conditions like booms and depressions, important events (both national and international) etc. will affect the stock prices

In this sense we can say that the stock exchange is an economic barometer (indicator)

Functions of Stock Exchange

1. Liquidity and marketability to investment
2. Pricing of securities
3. Safety of transactions
4. Contributes to economic growth
5. Spreading of equity cult (trend)
6. Providing scope for speculation
7. Economic barometer

Prepared by:

Ajith Kanthi @ Ajith P P
SKMJ HSS Kalpetta
Wayanad, Kerala
Ph: 9446162771, 7907712665
ajithkanthi@gmail.com


END
BEST ANIMATIONS