

COMPONENTS OF FINANCIAL SYSTEM

Course Teacher : Dr.K.T.Peter

Course : Capital Market

COMPONENTS OF FINANCIAL SYSTEM

I. Financial Market

- A Financial market is an arrangement that facilitate buying and selling of financial assets or instruments, including deposits, loans, stocks, bonds, options and futures.
- It caters the credit needs of the individuals, firms and institutions.
- It is defined as a transmission mechanism between investors (savers) and the borrowers through which transfer of funds is facilitated.
- The financial markets are broadly classified into- a) money market and b) capital market.**
- Money market** is a market for short-term securities like call money, treasury bills, bills of exchange etc.
- Capital market** is a market for long-term securities such as equity, debentures, bonds etc.

II. Financial Institutions

- ❑ These are organizations that mobilize savings and provide finance or credit to individuals and organizations.
- ❑ The financial institutions can be classified into three- a) Banks, b) Non-banking Institutions and c) Specialized institutions.
- ❑ Non-banking institutions include LIC, GIC, UTI, mutual fund etc.
- ❑ Specialized institutions are multi-purpose institutions which provide medium and long term credit to industrial units, discover investment projects, provide technical advice and managerial services and assist in the management of industrial units.
- ❑ These institutions consist of IFCI, NABARD, State Financial Corporations etc.

III. Financial Instruments

- ❖ Financial instruments are financial assets comprising money market instruments and capital market instruments.
- ❖ **Money market instruments** are short-term financial assets. It consist of call money, notice money, treasury bills, certificate of deposits, commercial papers etc.
- ❖ **Capital market instruments** are long-term financial assets consisting of equity shares, preference shares, debentures, bonds etc.

IV. Financial services

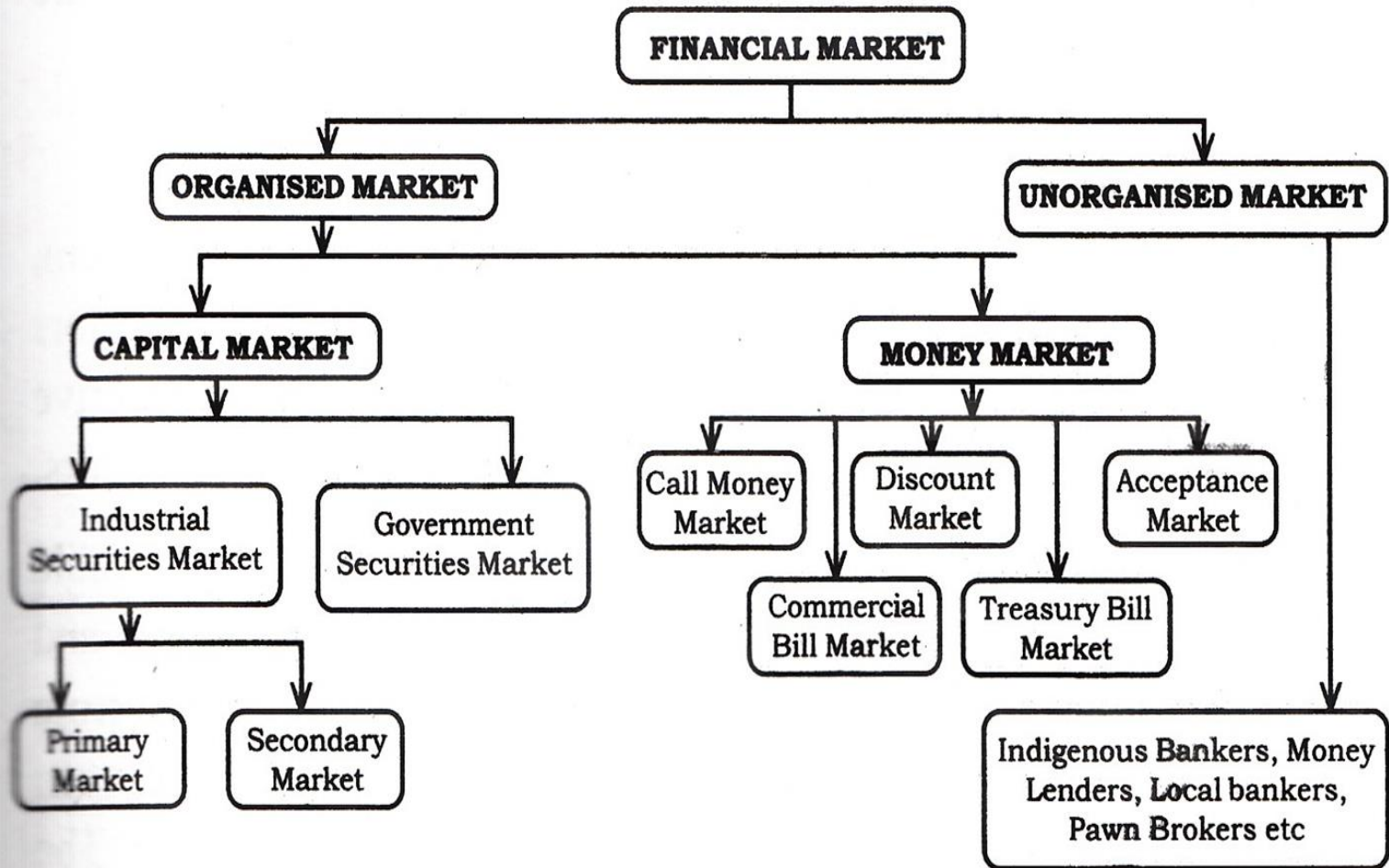
- Financial services cover a wide range of activities including merchant banking, mutual fund, credit rating, leasing, stockbroking etc.
- These services are essential for a smooth financial system.

I. FINANCIAL MARKETS

- ✓ The financial markets consist of the borrowers of funds who issue the securities and the suppliers of funds who buy those securities.
- ✓ In this process the institution serve as intermediaries.
- ✓ Financial Market is the market where Financial Securities like
Ex: Stocks, bonds
- ✓ Buyers (lenders) Sellers (borrowers) or by the medium of stock exchanges.
- ✓ **CHART SHOWING THE CLASSIFICATION**



CHART 1.3: CLASSIFICATION OF FINANCIAL MARKETS



DEFINITION

MONEY MARKET

“A Market for short term financial assets that are close substitute for money,

and facilitates the exchange of money in primary and secondary market”

RESERVE BANK OF INDIA

ORGANISED MARKET

MONEY MARKET

- Deals with Finance / Money / Financial assets
- Bought and sold for less than one year (Maturity)
- Provides a market for credit instruments
- Financial Instruments are close substitutes of money
- Raised to meet the short term requirement.
- Investment in money market is safe but it gives low rate of return.
- Ex: Securities, Bonds.

THE INDIAN MONEY MARKET CONSISTS OF / MAJOR PLAYERS IN MONEY MARKET

- Reserve Bank of India
- Commercial banks
- Co-operative banks and other specialized financial institutions.
- Non-Banking Financial Companies (NBFCs)
- Financial institutions like LIC, GIC, UTI,

COMMON INSTRUMENTS OF MONEY MARKET ARE :

Call money, Treasury Bill, CP, CD, Commercial bill, etc.

The Reserve Bank of India is the leader of the money market in India.

FUNCTIONS OF MONEY MARKET

- It help to maintain balance between demand and supply of short term funds.
- Money market plays a very important role of making funds available to many units or entities engaged in diversified field of activities.
- By providing funds to developing sectors it helps the growth of economy also.
- It promotes new instruments.
- It provides a base for the implementation of monetary policy.
- The money market provides opportunity for short term investments, which in turn helps formation of capital.

MONEY MARKET INSTRUMENTS

1. Call Money
2. Treasury Bills (T-Bills)
3. Certificate of Deposits (CDs)
4. Commercial Papers (CPs)
5. Inter - Corporate Deposits (ICDs)
6. Repurchase Agreements (REPOs)
7. Inter-Bank Participation Certificate (IBPCs)
8. Commercial Bills (CBs)
9. Collateralized Borrowings and Lending Obligations (CBLO)

The markets where these instruments are traded are known as

Sub-Markets of money market

