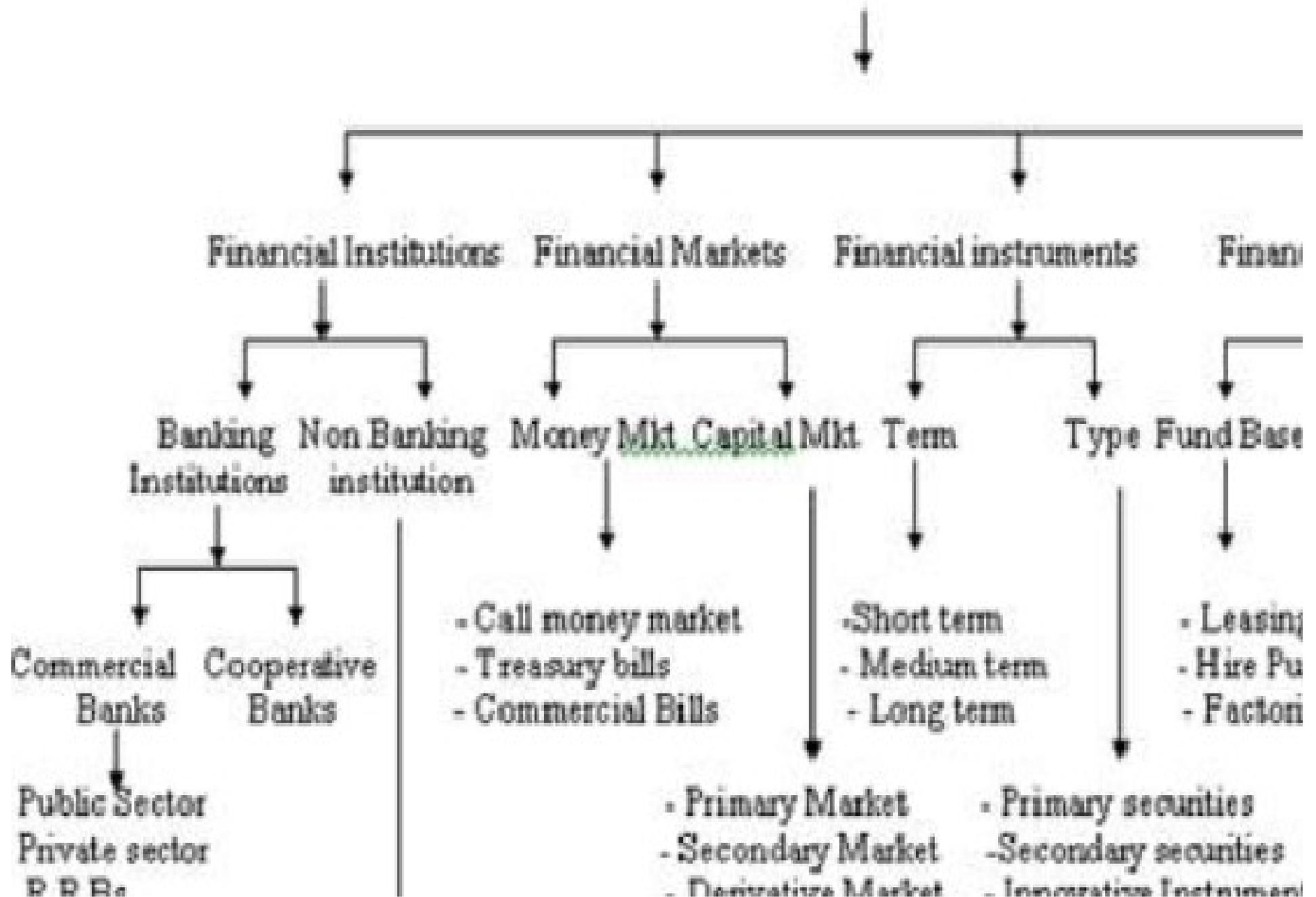


# Financial Markets



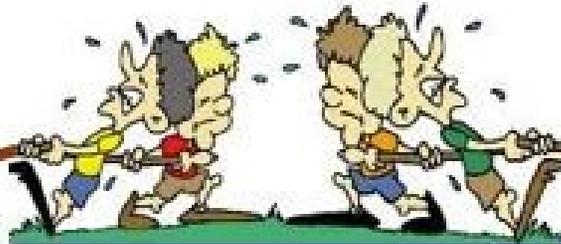
# COMPONENTS OF INDIAN FINANCIAL SYSTEM





# Financial Markets

Bringing investors and borrowers together



**Investors  
(lenders)**



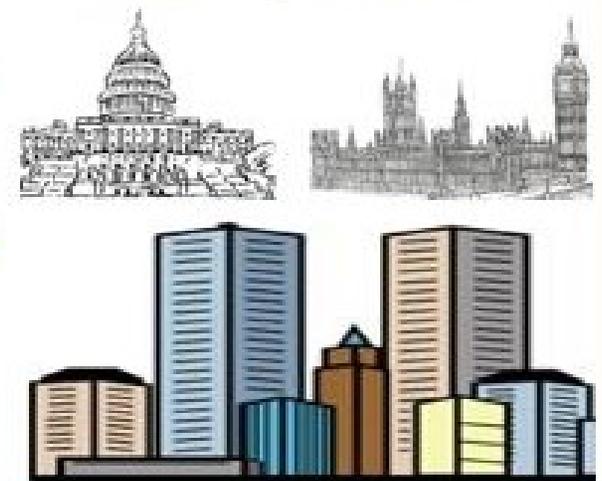
**Financial  
Markets**

**Banks & other  
financial institutions**



**Borrowers**

**Governments and  
Companies**



# Financial Market

- A financial market is a market where financial instruments are exchanged or traded.
- A financial market is a mechanism that allows people to buy and sell financial securities and commodities at efficient market prices.
- In broad term, financial market is the market place where buyers and sellers participate in the trade of assets such as equity, bonds , currencies and derivatives.

**•Therefore, Financial market is a link between the savers and borrowers. This market transfers the money or capital from those have surplus money to those who are in the need of investment.**

**•Generally, the investors are called surplus units and business enterprise are called deficit units.**

# Financial Market

```
graph TD; FM[Financial Market] --> MM[Money Market]; FM --> CM[Capital Market]; CM --> PM[Primary Market]; CM --> SM[Secondary Market]; SM --> SSM[Stock Market]; SM --> OTC[Over-the-Counter]
```

Money Market

Capital Market

Primary Market

Secondary Market

Stock Market

Over-the-Counter

# Financial Market

## Types of Financial Market

**Money  
Market**

**Capital  
Market**

**Derivatives  
Market**

**Commodity  
Market**

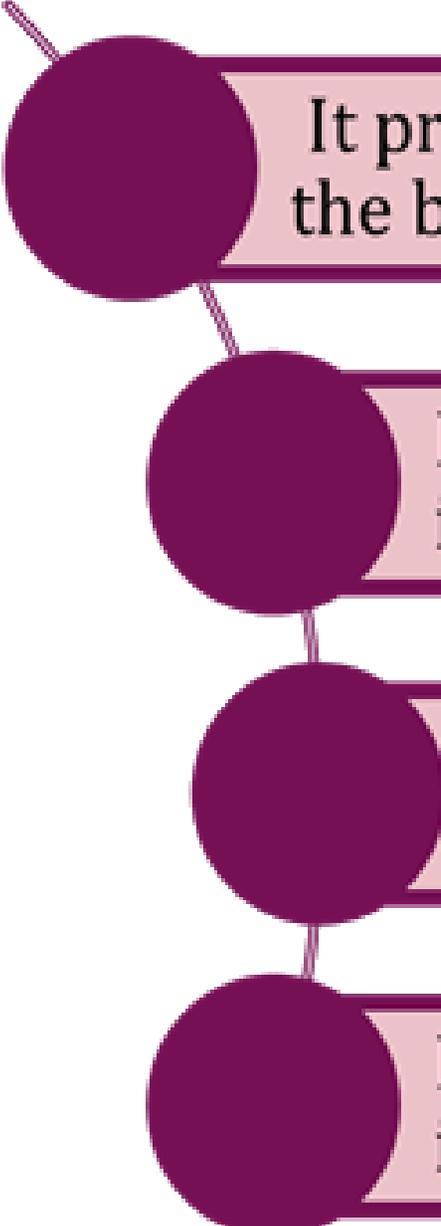
**Foreign  
Exchange  
Market**

# Functions of Financial Market

**Financial markets perform following four important functions—**

- **Mobilization of savings and Channelising them into most productive use.**
- **Facilitate price discovery.**
- **Provide liquidity to financial assets.**
- **Reduce the cost of transaction.**

## Functions of financial market



It provides facilities for interaction between the lenders and the borrowers.

It provides pricing information resulting from interaction between buyers and sellers.

It provides security to dealings in financial assets.

It ensures liquidity by providing a mechanism for an investor to sell the financial assets.

# Money Market

**Money market** means **market** where **money** or its equivalent can be traded.

**Money Market** is a wholesale market of short term debt instrument and is synonym of liquidity..

**Money Market** is part of financial **market** where **instruments** with high liquidity and very short term maturities ie one or less than one year are traded.

Due to highly liquid nature of securities and their short term maturities, **money market** is treated as a safe place.

*Hence, **money market** is a **market** where short term obligations such as*

*treasury bills, call/notice money, certificate of deposits, commercial papers and repos are bought and sold.*

# Capital Market

## Meaning

The term “Capital Market” refers to **the institutional arrangement** for facilitating the borrowing and lending of long-term funds.

It is the organized mechanism for effective and efficient transfer of capital or financial resources from the investing parties.

## Definition

“This is not a market for capital goods, rather it is a market for raising and advancing capital for investment” **- P.K. Dhar**

“It is a market for long-term funds. Its focus is on financing of fixed investments in contrast to money market which is the institutional source of working capital finance”

**- M.Y. Khan**

# What Is a Derivative?

*A derivative is a financial security with a value that is derived from, or based on, the value of an underlying asset or group of assets.*



Stocks



Bonds



# Derivatives Market Participants

**Derivative Market is used to minimize the risk arising from the underlying assets. Derivative market has no independent existence without an underlying commodity or asset.**

## Participants

**Generally Banks, Corporates, Financial Institutions, Individuals and Brokers are regular Participants of Derivatives Market.**

**Participant are classified into Three Categories**

**HEDGERS:** Hedger is a Trader who trades in order to protect against price fluctuations in financial instruments.

**Speculators:** A person who invests in stocks, property or other ventures in the hope of making profit.

**Arbitragers:** A person who simultaneously sell and purchase the same financial instruments in to different market in order to make risk less profit.

# COMMODITY MARKET

- Commodity market is a place where trading in commodities takes place. These are the markets where raw and primary products are exchanged.
- These raw commodities are traded on regulated commodity exchanges, in which they are bought and sold in standardized contracts. It is similar to an equity market, but instead of buying or selling shares one buys or sells commodities.

## MEANING:

- ❖ It is the mechanism for exchanging one currency for another.
- ❖ A means to reduce exposure to the risk to fluctuating exchange rates.
- ❖ It is by far the largest market in the world, in terms of cash value traded & includes trading b/w large central banks, currency speculators, multinational corporations, govt and other financial markets.

# CASH OR SPOT MARKET DEFINITION

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Cash market is a market in which goods are bought for cash and delivered immediately.

By the same token with reference to financial contracts are bought and sold on spot.

