FINANCIAL MARKET

The Financial Market is a market for the development and exchange of financial assets.

FUNCTIONS OF FINANCIAL MARKETS:

1. Mobilize savings and direct them to the most productive purposes.
2. Improve price discovery
3. Increase liquidity for financial assets.
4. Reduce transaction costs.

TYPES OF FINANCIAL MARKETS:

1. Money Market (Market for Short-Term Funds)
2. Capital Market (Market for Medium and Long-Term Funds).

Money Market refers to the market for short-term funds, which deals in monetary assets with maturities of up to one year.

Instruments of Money Market:

1. Treasury Bill: A short-term debt instrument issued by the Reserve Bank of India on behalf of the Indian government.
2. Commercial Paper: An unsecured, negotiable promissory note issued by major, creditworthy enterprises to generate short-term capital.
3. Call Money: Banks utilize short-term loans to preserve their cash reserve ratio.
4. Certificate of Deposit: A bearer instrument issued for deposits held by businesses and institutions.
5. Commercial Bill: Short-term instruments used to fund the company's working capital requirements.

Capital market

The capital market refers to the entire network of organisations, institutions, and instruments that offer medium and long-term funding.

Components of capital markets

1. Primary Market: It is the market where securities are sold for the first time.
2. Secondary Market: It is the market for the selling and acquisition of previously issued securities.

Methods of Flotation in the Primary Market:

1. Prospectus Offering: The company invites the public to apply for its securities by issuing a prospectus.
2. Offer for Sale: Securities are initially provided to intermediaries at a set price, then sold to the investing public at a higher price.
3. Private Placement: The Company sells stocks to a few select institutional investors and individuals.
4. Rights Issue: The Company issues new shares to existing shareholders in proportion to the number of shares they currently own.
5. E-IPOs: A company provides money to the public via an online stock market.

STOCK EXCHANGE

The term "stock exchange" refers to an institution or collection of persons (incorporated or not) formed to aid, regulate, or control the activity of buying and selling shares.

Functions of the Stock Exchange:

1. Adding liquidity and marketability to existing securities
2. Price of Securities
3. Safety of the Transaction
4. Promotes economic growth.
5. Spreading the Equity Cult 6. Allowing for speculation

Trading on a stock exchange

1. Selecting a broker
2. Open a demat account with the depository.
3. Place an order.
4. Match the share with the best price.
5. Executing the Order
6. issuance of contract note
7. Delivering Shares or Making Payments
8. Settlement Cycle
9. Pay-out Day Working
10. Delivery of shares in Demat form

SECURITUIES AND EXCHANGE BOARD OF INDIA

The Securities and Exchange Board of India (SEBI) was established in 1988 to oversee the operation of the securities market and safeguard the interests of investors.

Objectives of SEBI

1. Regulate stock exchanges.
2. Protect, assist, and educate investors.
3. To avoid trading malpractices.
4. Regulate and create a code of behavior for middlemen.

Functions of SEBI

1. Regulatory Functions
2. Developmental Functions
3. Protective functions