Financial Markets.

⇒ **Financial Market:** is a market for the creation and exchange of financial Assets.

⇒ **Functions of financial Market:** The four main function of financial market are:

(1) Mobilise Savings and channelise them into most productive uses.

(2.) Facilitate price discovery.

(3) Provide liquidity to financial Assets.

(4) Reduce the cost of Transaction.

⇒ **Types of Financial Market:** Financial Market consist of two major segment:

(1) Money Market (Markets for Short term funds)

(2) Capital Market (Market for medium and long-term funds).

⇒ **Money Market:** Refers to market for short-term funds, which deals in monetary assets whose period of maturity is upto one year.

⇒ **Instruments of Money Market**:- The common Instruments of money markets are:

(1) **Treasury Bill**:- Instrument of Short-term borrowing issued by RBI on behalf of Indian Government.

(2) **Commercial paper**:- Unsecured, negotiable promissory note issued by large and credit worthy companies to raise short-term funds.

(3) **Call Money**:- Short-term finance generally used by bank's to maintain cash reserve ratio.

(4) **Certificate of Deposit**:- Bearer document issued against the deposits kept by companies and Institutions.

(5) **Commercial Bill**:- Short term Instruments used to finance working capital requirement of that business.

⇒ **Capital Market**:- refers to whole network of all the organisations, Institutions and Instruments that provide medium and long-term funds.

⇨ Components of Capital Market :-

(1.) **Primary Market** :- It refers to market wherein securities are sold for the first time.

(2) **Secondary Market** :- It refers to market for sale and purchase of previously issued securities.

⇨ Methods of Floatation in primary Market

Various Methods of floating new issues in the primary market are.

(1) **offer through prospectus** :- company invites public to apply for its securities through issue of prospectus.

(2) **offer for sale** :- securities are first issued to intermediaries at a fixed price and they sell them to investing public at higher price.

(3) **Private placement** :- companies sell the securities to some selected Institutional investors and individuals.

(4) **Rights Issue** :- company offer new shares to its existing shareholder in ratio of shares already held by them.

(5) E-IPOs:- company issues capital to public through online system of stock exchange.

⇒ Stock Exchange:- refers to an institution or body of individuals (incorporated or not), which is constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

⇒ Functions of Stock Exchange:- Main functions of stock exchange

(1.) Providing Liquidity and marketability to Existing securities.

(2.) Pricing of securities.
(3.) Safety of Transactions.
(4) contribute to Economic growth.
(5) Spreading of Equity cult.
(6) providing scope of speculation.

⇒ Securities and Exchange Board of India (SEBI):-

was setup in 1988 to regulate the functioning of securities market and to protect the interest of the investors.

⇒ Objectives of SEBI:-

(1) To Regulate stock exchange.

(2) To protect investors and to guide and educate them.

(3) To prevent trading malpractices.

(4) To Regulate and develop a code of conduct for intermediaries.

⇒ Functions of SEBI :-

(1) Regulatory Authority.
(2) Protective functions.
(3) Development functions.