



**COURSE:5**

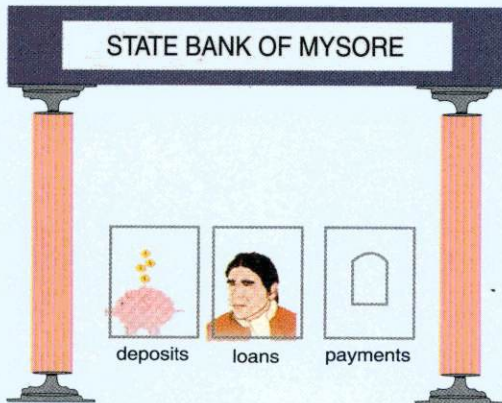
**M.A.(PREVIOUS)**

**MONEY-BANKING AND FINANCIAL MARKETS**



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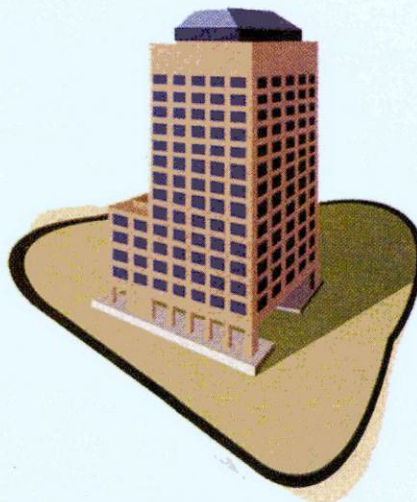
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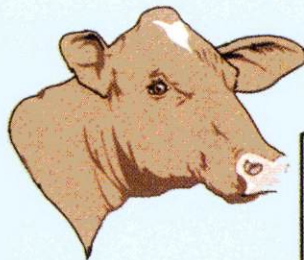
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Balance sheet

Liabilites		Assets	
Deposits	- 1000	Cash	Rs. 200
		Loan	Rs. 800
Total	- 1000		Rs. 1,000



SHARE MARKET  
BOMBAY



SHARE MARKET



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ಉನ್ನತ ಶಿಕ್ಷಣಕ್ಕಾಗಿ ಇರುವ ಅವಕಾಶಗಳನ್ನು ಹೆಚ್ಚಿಸುವುದಕ್ಕೆ ಮತ್ತು ಶಿಕ್ಷಣವನ್ನು ಪ್ರಜಾತಂತ್ರೀಕರಿಸುವುದಕ್ಕೆ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ ವ್ಯವಸ್ಥೆಯನ್ನು ಆರಂಭಿಸಲಾಗಿದೆ.

ರಾಷ್ಟ್ರೀಯ ಶಿಕ್ಷಣ ನೀತಿ 1986

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ಡಾ || ಕುಳಂದೈಸ್ವಾಮಿ

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**Dr. Kulandai Swamy**

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Karnataka State Open University

M.A. Economics (Previous)  
Course-V  
Money, Banking and Financial Markets

## Block - V

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Course - 5  
Block - V  
Unit 18 to 20

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## **Money Market**

### **Block Introduction**

Financial market consists of money market and capital market. These markets play an important role in economic development of an economy. These markets finance the needs of business, agriculture, industry, consumers and government. This block consists of three units. Unit -18 explains money market and its functions. Unit – 19 Explains the features of developed and under developed money markets and Unit – 20 explains the importance of capital market and its functions.



## Course V

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### **Unit-18      MONEY MARKET**

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#### **STRUCTURE**

- 18.1 Objectives
- 18.2 Introduction
- 18.3 Meaning of Money Market
- 18.4 Features of Money Market
- 18.5 Structure of Money Market
  - 18.5.1 Constituents of Money Market
  - 18.5.2 Credit Instruments of Money Market
  - 18.5.3 Composition of Money Market
- 18.6 Importance of Money Market
- 18.7 Let Us Sum Up
- 18.8 Books of self study
- 18.9 Question for self study

### **MONEY MARKET**

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#### **18.1 OBJECTIVES**

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Money market and capital market are the two constituent parts of the credit market. Money market plays an important role in an economy. After reading this unit you will be in a position to explain the meaning and features of money market, constituents of money market, credit instrument of money market and the composition of money market.

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#### **18.2 INTRODUCTION**

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A money market is a mechanism, which makes it possible for borrowers and lenders to come together. It functions primarily as an aid to banks and financial institutions so that they may utilise their surplus funds. It does not refer to any specific place. It may be located in or associated with a particular place or geographical locality where short-term funds from an entire region are attracted. Money market provides facilities for a quick and dependable transfer of short-term debt instruments, which finance the needs of business, government, agriculture and consumers. The central bank of the country occupies a strategic position in the money market. It is the key constituent of the money market, for it is the residual source of supply of funds. The money market can obtain funds from the central bank in two ways - either by borrowing or by sale of securities. A well-developed money market contributes to an effective implementation of the monetary policy.

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### 18.3 MEANING OF MONEY MARKET

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The term money market refers to financial institutions, which deal with short term funds in the economy. It is mechanism, which makes it possible for borrowers and lenders to come together. In other words of Crowther, money market is the name given to various firms and institution that deal in various grades of near money. According to S.N.Sen, “ It refers to the organisation for the lending and borrowing of short term funds through the use of such instruments as commercial bills of exchange, short term government securities, banker’s acceptance etc.” According to Madden and Nadler, “a money market is a mechanism through which short term loans are loaned or borrowed and through which a large part of the financial transactions of a particular country or of the world are cleared.....”

From the above definitions it is clear that money market deals only with short-term funds. In a money market funds can be borrowed for short term period from a day to six months against different types of securities such as bills of exchange, bankers acceptance, bonds etc. The term money market does not refer to any specific place. It may be located in or associated with a particular place where short-term funds from entire region are attracted. For example Bombay money market serves not only Bombay but the whole of India in borrowing and lending short term funds. Like wise there are some money market which are international in character such as London Money Market, New York Money Market which serves not only their country but also countries of the world.

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### 18.4 FEATURES OF MONEY MARKET

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A money market has the following features.

1. A money market is concerned with dealing in a particular variety of assets having some liquidity like bills of exchange, treasury bills, commercial papers etc.
2. Money market relation is impersonal and it is a competitive institution.
3. Money market is not a fixed place, but a centre. Generally it is located in a place where short-term funds are attracted.
4. Money market does not always deal in money paper, but it deals in money assets like bills of exchange, government securities, treasury bills etc.
5. Money market is a composite term. It is a group of specialized market where every market deals in a particular type of near money assets. For example, in London money market discount house deals in bills of exchange. In New York money market commercial paper market deals in commercial papers only.
6. Finally a money market is the centre where different institutions like commercial banks, corporations, non-bank financial intermediaries etc, adjust their own liquidity position. For the success of money market vari-



ous types of short-term securities should be available in sufficient quantity.

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## 18.5 STRUCTURE OF MONEY MARKET

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The structure of money market comprises credit instruments, sub-markets and institutions. Money market is an arrangement for the purchase and sale of short-term liquid assets, through negotiations between lenders and borrowers. Negotiations are carried on by the brokers. Participants in money market are central banks, commercial banks, business houses, non-bank financial intermediaries, states and local governments and so on. These institutions are sometime borrowers and sometimes they are lenders. Money market is an intermediary between commercial banks and central bank for the purpose of monetary control.

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### 18.5.1 CONSTITUENTS OF MONEY MARKET

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Constituents or institutions of money market can be divided into lenders sector and borrowers sector.

**A) Lenders Sector:** In the lenders sector, short-term funds are lent out. The lending institutions are:

- i) **Commercial banks:** Commercial banks are the most important suppliers of short-term funds. These banks finance industry and trade by discounting bills of exchange. Generally these banks operate in call loan market.
- (ii) **Discount houses:** In London money market the discount houses by discounting bills, they lend money to traders. These discount houses get their resources from banks, public and share capital.
- (iii) **Central Bank:** It is the apex institutions and lender of last resort. By means of lending funds to the various institutions it regulates the working of money market. As per minimum legal reserve requirement every commercial bank keeps a portion of its primary deposit with the central bank. Hence the central bank helps the commercial banks at the time of need by converting their assets to liquid.
- (iv) **Acceptance Houses:** Acceptance house give acceptance to the trade and treasury bills. Once the bill is accepted by a acceptance house it becomes the responsibility of the house for the amount of money mentioned in the bill in exchange for a commission. When a bill is accepted by the acceptance house it becomes readily saleable in the money market. The acceptance houses extended credit to their customers by accepting bills of exchange on their behalf.
- (v) **Non-bank financial intermediaries:** Various non-bank financial intermediaries like L.I.C. provident fund, chit funds, building societies also invest a part of their funds in the short term securities. They purchase the primary securities from the ultimate borrowers and issue indirect securities to the ultimate lenders.

(vi) Brokers and dealers: Brokers and dealers are the intermediaries between lenders and borrowers. They get the resources from banks.

**B) Borrowing Sector:** The following are the borrowers in the money market. They borrow from the money market as and when they are in need or short of funds to carry their respective business. They are businessman, farmers, stock merchants, public, brokers and government and other institutions.

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### **18.5.2 CREDIT INSTRUMENTS OF MONEY MARKET**

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The major short term credit instruments dealt in money market are:

- a) Trade bills: These are the bills of exchange arising out of bonafide commercial transactions. They include both inland bills and foreign bills. Generally the maturity of trade bill is 90 days. Before this period such bill will be accepted by commercial bank or discount houses.
- b) Treasury bills: There are promissory notes issued by government to meet its short-term financial needs. The maturity of treasury bills varies from three months to one year.
- c) Bankers acceptances: These are the bills of exchange accepted by commercial bank on behalf of their customers. Once a bill is accepted by a bank, its credit worthiness increases and it can easily be discounted.
- d) Short dated government securities: These are the securities issued by the government for short period. The period of maturity of this type of securities ranges between one to five years.
- e) Commercial papers: This is a special type of short-term credit instrument found in New York money market. Commercial papers are the promissory notes issued by reputed business houses or corporations. To meet some temporary expenditures or in need of cash, they sell these commercial papers in the market which carries interest rate. Their maturity period ranges between 90 to 180 days.
- f) Hundis: These are short-term credit instruments dealt in the Indian Money Market. They refer to indigenous bills of exchange drawn in vernacular languages and under various circumstances.

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### **18.5.3 COMPOSITION OF MONEY MARKET**

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A money market consists of several sectors or sub markets. Each sub market specialize in a particular type of lending. The following are the some important sub markets found in a money market.

(1) **Call Money Market:** This is an important sub market of the money market. This market is meant for extremely short period loans, generally from one day to seven days. For such loans normally no collateral or personal security is essential. These loans are highly liquid and can be recalled back by the lending bank at any time it deems it necessary. Generally the interest on call loans is rather low. In U.K such loans are provided by the banks to bill brokers and discount houses and in USA to the stock brokers and stock

exchange dealers. In India it facilitates for inter bank lending for book adjustment by the banks which will fall short of the statutory reserve requirements.

(2) Acceptance Market: This is the sub market specialising in the acceptance of bills of exchange on behalf of customers arising out of trade and transactions, internal or international. The bills which are accepted or guaranteed by the acceptance houses are known as bankers acceptances. When a bill of exchange is accepted by acceptance house, it becomes readily saleable in the money market. For performing this function the acceptance house charges some commission. Acceptance Houses in the London Money Market provide an example to institutions specialising in this business.

(3) Bill Market or Discount Market: This is another sector of money market specialising in the discounting of short term commercial bills and treasury bills. The bill market is also called discount market. The bills of exchange, which are commercial papers, are used to finance internal as well as international trade. Such bills are generally for 90 days. This market specialises in the purchase and sale of commercial bills. The treasury bill is a short term government security of the duration of three months sold by the central bank on behalf of the government. The treasury bills are sold by the central bank to the highest bidder in the money market.

(4) Collateral Loan Market: This market deals only with collateral loans, that is loans backed up by securities, stocks, bonds etc. Such loans are usually granted by the commercial banks to stock exchange dealers and brokers. The collateral is, of course returned to the borrower when he replaces loan.

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## 18.6 IMPORTANCE OF MONEY MARKET

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The importance of a properly organised and well developed money market stems from the various functions it performs in the overall interest of the economic development of the country. The following are the important roles of money market.

- (1) A well-organised money market facilitates the working of the capital market, because the institutions operating in the capital market often make use of funds obtained in the money market.
- (2) Money market provides short-term funds not only to businessman but also to the government. The government can obtain temporary financial difficulties by means of treasury bills.
- (3) Money market provides opportunities to commercial banks to invest their funds in a profitable way.
- (4) Money market helps the central bank in monetary management through its operations in money market.
- (5) Money market is channel through which idle resources are mobilised for productive investments. Productive investment helps in the economic development of the country.
- (6) Money market finances industry, trade and commerce.

- (7) Money market provides an opportunity to the surplus fund holders to invest their funds in productive and profitable channels.
- (8) Money market uses near money assets and there by economises the use of money.
- (9) It helps in the transfer funds from one part of the country to another and help in proper utilisation of funds in the country.
- (10) It encourages saving and investment and ensures liquidity and safety to the financial assets.
- (11) When the money market is well developed, the commercial banks need not borrow from the central bank. They can easily obtain funds from money market. From the above points it is clear that money market plays a vital role in helping the government, the business sector and the personal sector by providing short-term funds. In addition to this it also helps the central bank in implementing proper monetary policy.

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### **18.7 LET US SUM UP**

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Money market refers to market for short-term funds. In money market short term funds can be borrowed against bills of exchange, treasury bills, bankers acceptance. Money market does not refer to any particular place. It refers to a region where short-term funds are attracted. A money market has got some features like it deals with assets having liquidity, it deals with near money assets like bills of exchange, the relationship in money market is impersonal, it does not refer to any fixed place, it consist of group of specialized market dealing with a particular type of asset.

As for the structure of money market is concerned it is comprised of three sectors. Firstly it consist of many financial institution like central bank, commercial banks, brokers, discount houses, non-bank financial intermediaries, businessmen, stock brokers, government. These are the some financial institutions and people who participate in lending and borrowing short term funds. Secondly, money market uses instrument like treasury bills, government securities, bills of exchange, commercial papers, bankers acceptance and so on. Thirdly, money market has several sub markets. They are bill market, call money market, and acceptance market, collateral loan market. Each of this market conducts its business in one type of short dated security.

Money market plays a significant role in the development of an economy. It helps capital market provides short term funds to government and businessmen, a channel for commercial banks to invest their funds and make profit, it mobilises funds from one place to another, helps central bank of the country to shape a proper monetary policy for an economy. In this way money market plays an important role in an economy by helping government, business people and household sector.

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**18.8 BOOKS FOR SELF STUDY**

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1. Banking Theory and Practice – K.C. Shekar
2. Fundamental of Monetary Economics – B.N.Ghosh and R. Ghosh
3. Corporation Finance – P.V.Kulkarni
4. Monetary Economics – M.L.Seth

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**18.9 QUESTIONS FOR SELF STUDY**

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1. Explain the structure of a money market?
2. What is a money market? What are the important constituents of the money market?
3. Discuss the importance of money market and explain the short-term instruments used in money market?
4. Write a note on:
  - a) Credit instruments used in money market?
  - b) Institutions that participate in money market?

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**Features of developed and underdeveloped money market**

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**Structure**

- 19.1 Objectives
- 19.2 Introduction
- 19.3 Features of developed money market
- 19.4 Features of underdeveloped money market
- 19.5 Indian money market
- 19.6 Let us sum up
- 19.7 Books of self study
- 19.8 Questions for self study

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**19.1 OBJECTIVES**

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After reading this unit you will be in a position to explain the features of money market in developed and underdeveloped money market. After reading this unit you will be in a position to say whether the Indian money market is developed one or not.

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**19.2 INTRODUCTION**

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In the unit-18 we have learnt about the money market, its importance, components, sub markets and so on. In this unit we are going to study the features of money market in developed and underdeveloped money market. The money market in all the countries are not equally developed or organised. Money market in most of the developing countries and underdeveloped are unorganised. For example the money market in UK or USA is highly developed and well organised, where as the money market in a developing country like India is not so well developed. So we call the Indian money market as underdeveloped or unorganised one.

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**19.3 FEATURES OF DEVELOPED MONEY MARKET**

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The features of developed money market are as follows.

1. The existence of an efficient and effective central bank is one of the features of a developed money market. It is the leader of money market and capable of guiding, directing and controlling the various sectors of the money market.
2. A developed money market will have well-developed banking system. It should be a channel for the utilisation of short-term funds. The commercial banks in the banking system of a developed money market mostly deal in short term loans because their deposits are of a short-term variety.

3. A developed money market will have different specialised sectors or sub markets each specialising in a particular type of lending. For example bill market, commercial paper market, collateral market, call loan market etc. Special market will increase the efficiency of money market. However, these sub markets must be integrated and specialised.
4. A developed money market must have adequate financial instruments of high quality like trade bills, treasury bills, short-term government securities. Large number of financial instruments indicates that the money market is highly developed one.
5. The money market must have adequate financial resources. It must not suffer from any inadequacy of funds. The funds must be sufficient to meet the demand in the market.
6. The funds must be perfectly mobile. The funds must not be concentrated in a particular part of the money market. Funds must flow throughout the money market without any restriction.
7. A well-developed money market must have adequate facilities for transfer of funds from one region to another region of the country. Cheap and quick remittance facilities are essential for the smooth and efficient working of money market.
8. A money market should be highly sensitive to the influence of both internal and international trade.
9. The rate of interest structure should be integrated in the money market. There must not be a multiplicity of interest rates in different money market and region of a country.
10. Existence of specialised financial institutions like export and import bank, bank for financing small industries, savings bank will find a place in a developed money market.

The above features are the features of a well-developed money market. London Money Market, New York Money Market can be regarded as developed money market. Since they are having the above said features.

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#### **19.4 FEATURES OF UNDERDEVELOPED MONEY MARKET**

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Money markets in most of the developing countries are underdeveloped. In these countries the money market is divided into organised or modern sector and unorganised or the indigenous sector. The following are the characteristics of an under developed money market.

1. The commercial bank is unorganised and it is not fully under the control of central bank.
2. Central bank in most of the developing countries is not highly experienced. Therefore they are not in a position to fully control the money market and commercial banks.

3. Sub markets in the money market are in few and unorganised.
4. Financial instruments like bills of exchange, commercial paper, treasury bills etc are not found in large quantity.
5. Multiplicity in interest is another feature. The rates of interest are not uniform and they change from season to season.
6. There are flexible rules regarding the lending and borrowing activities. No rigid rule is followed regarding lending and borrowing.
7. There is lack of specialisation in lending and borrowing. There is no co-ordination and cooperation between the different sectors of the money market.
8. Finally the system of maintaining account and also the writing of different credit papers like promissory notes, hundis are not uniform.

In the above conditions it becomes very difficult for the central bank to control the banking system in the country. Underdeveloped money market is an obstacle to smooth functioning of the monetary management by the central bank.

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### **19.5 INDIAN MONEY MARKET**

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Indian money market is one of the underdeveloped money market. The important constituents of the Indian money market are reserve Bank of India, State Bank of India and its subsidiaries, the public sector banks, private banks, development banks like Indian Finance Corporation, UTI, etc, cooperation banks and the indigenous banks. The Indian money market is having all the features of the underdeveloped money market. They are:

1. Two sector i.e organised sector and unorganised sector
2. Lack of cooperation and coordination between the various sectors of the money market.
3. Lack of control by the central bank over the unorganised sector of money market.
4. Multiplicity of interest rate.
5. Seasonal stringency of funds.
6. Absence of well developed money market.
7. Absence of specialised financial institution and
8. Finally inadequate banking facilities in the country. However the Reserve Bank of India is taking steps to correct these defects in the Indian Money Market.

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### **19.6 LET US SUM UP**

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Depending upon the economic development of country, the money market can be divided in to developed money market and under developed money market. In most of the developed countries like USA, UK the money



market is said to developed one. But the money market in most of the developing countries is said to be underdeveloped one. In a developed money market we see a well-organised banking system, an effective central bank, sub markets dealing in a specialised credit instruments, adequate financial instruments, financial resources, mobility of funds from place to place, cheap and quick remittance facilities and highly sensitive to economic changes.

In a underdeveloped money market we see organised sector and unorganised sector. Commercial banks and money market are not fully under the control of central bank. Insufficient financial instruments, diversity in the rates of interest, flexible rules regarding borrowing and lending, different types of maintaining account and writing of hundies and absence of specialized sub markets are some of the features of underdeveloped money market.

Indian money market is said to be an underdeveloped money market, since it is having many features of the underdeveloped money market. Underdeveloped money market is an obstacle to smooth functioning of the monetary management by central bank. The Indian money market is unorganised, disintegrated one and there is multiplicity of interest rate. The Indian money market is divided into unorganised sector and organised sector. The organised sector of money market is well under the control of central bank, but not the unorganised sector. However in recent years many efforts are being made to bring the unorganised sector under the control of the central bank.

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#### **19.7 BOOKS FOR SELF STUDY**

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1. Corporation Finance – Principles and Problems – P.V.Kulkarni
2. Fundamental of Monetary Economics – Dr. B.N.Ghosh & Dr.R. Ghosh
3. Banking Theory and Practice – K.C.Shekar
4. Monetary Economics – M.C. Seth

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#### **19.8 QUESTIONS FOR SELF STUDY**

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1. Describe the features of a developed money market?
2. Explain the characteristics of a underdeveloped money market ?

## Course V

**Unit:20**

## **CAPITAL MARKET**

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### Structure

- 20.1 Objectives
- 20.2 Introduction
- 20.3 Capital market
- 20.4 Structure of capital market
- 20.5 Credit Instruments dealt in capital credit
- 20.6 Importance of capital market
- 20.7 Indian capital market
- 20.8 Let us sum up
- 20.9 Books for self study
- 20.10 Questions for self study

### Capital Market

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#### **20.1 OBJECTIVES**

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After reading this unit you will be in a position to explain what is capital market? Importance of capital market, instruments dealt in a capital market, financial institution in a capital market and role of capital market in the economic development of a country.

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#### **20.2 INTRODUCTION**

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The term capital market refers to all the facilities and institutional arrangements for the borrowing and lending of long term funds. It is concerned with the raising of funds. In the present day world the people who initiate investment activity do not have funds for the purpose, while there are people who save but have no desire to utilise their savings directly for investment activities. Capital market facilitates the transfer of funds to those who needs funds. The commodity that is dealt with in the capital market is money. A business man or an industrialist require money for three purposes: for purchasing capital equipment and other fixed assets, for holding stocks of rawmaterials and finished goods and for making payment of wages. The first requirement is referred as fixed capital or long-term capital, which is provided by the capital market. Capital market works through stock exchange market. Stock exchanges deal in papers connected with long term financing and investment banks, trust etc. of various kinds. A stock exchange raises money for use over a fairly long period and provides it to those who need it. The papers used in stock exchange are either shares or stocks or debentures or bonds. These papers are called as securities, which may be public or private. There are facilities in the capital market to purchase and sell these securities.

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### **20.3 CAPITAL MARKET**

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The capital market is concerned with the supply of long term funds. It is essentially concerned with long term finance for productive investment by industrial and commercial enterprises. It is the arrangement by which savings generated in the economy are channelised into avenues of investment. The flow of funds may come from industrial and commercial undertakings, government and semi-government bodies, and other organisations, which raise their capital by issue of shares, debentures / government bonds and certificates.

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### **20.4 STRUCTURE OF CAPITAL MARKET**

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The structure of capital market includes sub markets and credit institutions like any other market. Capital market has various sectors of the economy such as agriculture, trade and industry on the demand side. On the supply side there are individual investors, corporate bodies, institutional investors, government, issue houses and host of other institutions. The investment through the capital market symbolises all monetary claims of a long term nature.

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### **20.5 CREDIT INSTRUMENTS DEALT IN CAPITAL MARKET**

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In the capital market the main credit instruments are bonds, debentures, equities, shares and stocks. There are various sub markets in a capital market. They are mortgage market, corporate stock market, government bond market, stock exchange market and new issue market. The new issue market brings in new or fresh capital. It is an integral part of the capital market of a country and together with the stock exchange, constitutes its security market. New issue market has tremendous importance in the national economy because of the fact that it is the vehicle through which forces affecting employment and real income make themselves felt.

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### **20.6 IMPORTANCE OF CAPITAL**

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Capital market plays a very important role in the industrial commercial and overall development of the country. It has been found that the main obstacle to economic development of a developing country is the lack of capital. Thus the capital market can play a very decisive role. The function of the capital market is to enable investors to adopt their investment to their expectations, which are constantly changing. It facilitate the movement of capital to the point of the highest yield to those who can apply it profitably, productively and enhance the national income in the aggregate.

A capital market is very important to any economy. Firstly the capital market can supply the working capital in abundance for industrial and commercial development. Without finance modern industrial development

which involves round about methods of production, cannot be successfully started. Much of the modern development depends essentially on capital, which can be supplied by capital market. Secondly, economic development essentially depends on the effective mobilisation of savings and its productive uses. This work can be done well by the capital market whose main function is to collect savings from savers, and channelise them into more productive lines of business. Thirdly, the capital market can give better inducement in the economic growth by giving a reward to the savers the rate of interest on their savings. Capital market gives incentives and encourages investors and savers. Fourthly, capital market creates a reservoir for the easy equilisation of supply and demand at any moment of time so as to prevent wide fluctuations. Fifthly, capital market helps in a better and a more rational allocation of resources. Generally in developing countries, people keep their wealth in the form of real assets like gold, landed property etc. These idle resources can be mobilised by capital market and can be diverted in to productive channels of production. Sixthly, capital market can cater to the needs of various types of small and big investors, since it has a number of financial assets of different maturity periods. Seventhly, capital market is a link between savers and investors. It helps even a small saver to participate in the investment activities. Finally, capital market is a great help for capital formation by mobilising idle resources to the productive channels of production.

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## **20.7 INDIAN CAPITAL MARKET**

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The Indian capital market may be divided into organised and unorganised capital market. Organised market refers to regular financial institutions organised on modern lines, such as commercial banks, cooperative banks, various non-banking financial intermediaries like IFC and ICICI. The sub markets in these sectors are new issues market, the stock market, private bond market, the government bond market etc. The unorganised capital market refers to indigenous financial institutions such as rural and urban moneylenders, indigenous bankers like multanis, shroffs, marwaries, gujratis etc. The method of operation and practices vary and they do not have regular recourse either to deposit from public on to borrowings from banks. The general level of the rates of interest are very high. They provide seasonal finance for marketing of crops through moneylenders.

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## **20.8 LET US SUM UP**

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Capital market provides long term finance. This market provides funds for long term investments. The funds are raised through issue of shares, debentures, bonds of various organisations and government. Capital market consists of sub markets and credit institutions. The demand for funds comes from industry, trade and agriculture sectors. On the supply side individuals, institutional investor's, corporate bodies and government provide the necessary funds. Capital market deals in credit instruments like bonds, deben-

tures, equities, stocks and shares etc. Capital market enables the investors to earn from their investment according to their expectations. Capital market helps the economy in increasing profitability, productivity and aggregate national income. The Indian capital market is divided into organised and unorganised capital market. The organised capital market consists of financial institutions, commercial banks and non-bank financial intermediaries. The unorganised capital market consists of indigenous bankers, multani, shroffs, marwaris, gujratis and so on.

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#### **20.9 BOOKS FOR SELF STUDY**

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1. Fundamental of Monetary Economics – Dr. B.N.Ghosh & Dr.R. Ghosh
2. Banking Theory and Practice – K.C.Shekar
3. Monetary Economics – M.C. Seth
4. Corporation Finance – P.K.Kulkarni

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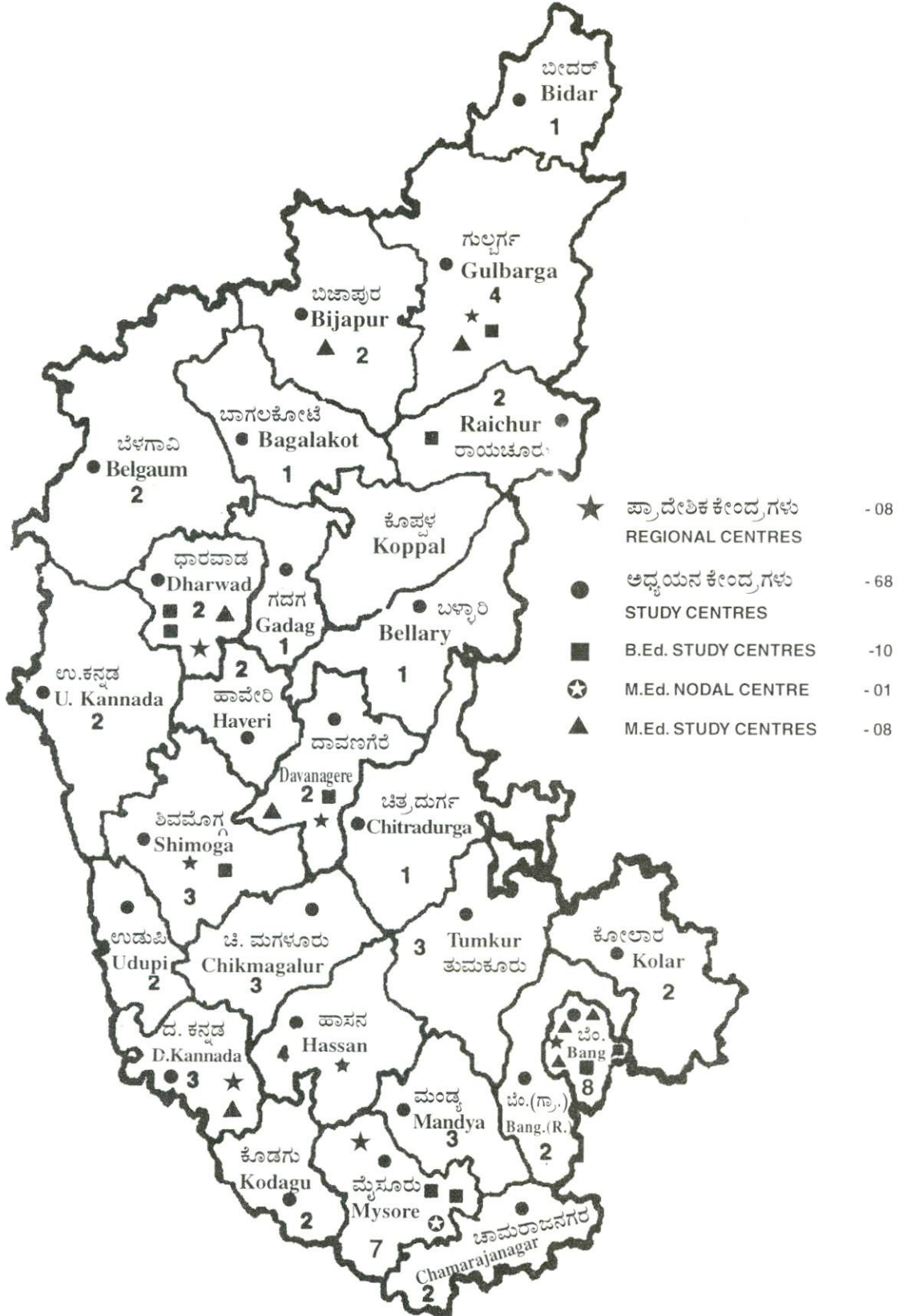
#### **20.10 QUESTIONS FOR SELF STUDY**

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1. Explain the structure and functions of capital market?



ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯದ ಪ್ರಾದೇಶಿಕ ಹಾಗೂ ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳು  
Regional and Study Centres of Karnataka State Open University



(ನಮೂದಿಸಿರುವ ಅಂಕಿ - ಜಿಲ್ಲೆಯಲ್ಲಿರುವ ಒಟ್ಟು ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳ ಸಂಖ್ಯೆಯನ್ನು ಸೂಚಿಸುತ್ತದೆ.)  
The Number Indicate the Total Number of Study Centres Existing in that Districts.

